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# PROCEEDINGS

(REVISED)

39

OF THE

## SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

OF THE

HOUSE OF COMMONS

February-July Session, 1924

PRINTED BY ORDER OF PARLIAMENT



OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1924

[App. 1—1924] Price, \$1.00



853



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### SUB-COMMITTEES

"McKeown Report" on Home Bank: Messieurs Hanson, Healy, Irvine, Malcolm, Marler (Chairman), Spencer and Vien.

"Tory Report" on Agricultural Credit: Messieurs Coote, Euler, McKay (Chairman), McMaster, Shaw, Stevens and Vien.

"Witnesses": Messieurs Baxter, Cahill (Chairman), Good, Irvine, Mitchell and Vien.

## MEMBERS OF THE COMMITTEE

Hon. W. G. Mitchell, Chairman (c)

Mr. Thomas Vien, Chairman (e)

Baxter, J. B. M.	German, W. M.	Maybee, M. E.
Benoit, A. J.	Good, W. M.	Mewburn, Hon. S. C.
Bird, T. W.	Grimmer, R. W.	Millar, John
Black, W. A.	Guthrie, Hon. H.	Mitchell, W. G. (c)
Black, George	Hanson, R. B.	Morin, L. S. R.
Boivin, G. H.	Harris, J. H.	Papineau, L. J.
Bristol, Hon. E.	Hatfield, P. LaC.	Porter, E. G. (d)
Cahill, F. S.	Healy, A. F.	Power, C. G.
Caldwell, T. W.	Hodgins, A. L.	Rankin, J. P.
Carmichael, A. M.	Hudson, A. B.	Rhéaume, J. T.
Carruthers, John	Hughes, J. J.	Robb, Hon. J. A.
Casgrain, P. F.	Irvine, W.	Robichaud, J. G.
Chaplin, J. D.	Jacobs, S. W.	Robitaille, Clement
Chevrier, E. R. E.	Kellner, D. F.	Ryckman, E. B.
Clark, J. A.	King, Hon. J. H.	St. Père, E. C.
Clifford, L. O.	Ladner, L. J.	Sales, Thomas
Coote, G. G.	Laflamme, J. N. K.	Senn, M. C.
Crerar, Hon. T. A.	Low, Hon. T. A.	Shaw, T. J.
d'Anjou, J. E. S. E.	McBride, T. G.	Sinclair, D. J.
Desaulniers, A. L.	Macdonald, Hon. E. M.	Sinclair, Hon. J. E.
Descoteaux, J. F.	Mackinnon, D. A.	Speakman, Alfred
Drayton, Sir H. L.	Maclean, W. F.	Spencer, H. E.
Duncan, M. R.	Macphail, Agnes	Steedsman, James
Elliott, Preston	McCrea, F. N.	Stevens, Hon. H. H.
Elliott, Wm.	McKay, M.	Stork, Alfred
Euler, W. D. (a)	McMaster, A. R.	Tobin, E. W.
Fafard, J. F.	McMurray, Hon. E. J.	Vien, Thomas (e)
Fielding, Rt. Hon. W. S.	McQuarrie, W. G.	Ward, W. J. (f)
Forke, Robert (b)	McTaggart, N. H.	Woods, R. J.
Fortier, H. A.	Malcolm, James	Woodsworth, J. S.
Garland, E. J.	Marler, Herbert	

(a) Replaced Hon. W. G. Mitchell, who resigned as Member of House, May 15, 1924.

(b) Replaced by Mr. W. J. Ward, April 15, 1924.

(c) Resigned as Member of House, May 15, 1924.

(d) Resigned as Member of House, June 27, 1924.

(e) Selected as Chairman, May 20, 1924, to replace Hon. W. G. Mitchell, who had resigned as Member of House.

(f) Replaced Mr. Robert Forke, April 15, 1924.



## ORDER OF REFERENCE

(OTHER THAN PRIVATE BILLS)

MONDAY, March 31, 1924.

*Ordered*,—That the Resolution adopted by this House on Thursday, 27th March, as follows:—

“That in the opinion of this House, in view of the failure of the Home Bank and of the fact that official prosecutions and inquiries have been instituted, including the Royal Commission which has been appointed to investigate the facts alleged in the petition represented by the depositors of the Bank and the affairs of the Bank generally; and considering that the evidence received and to be taken before the several tribunals will be available for consideration, the Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future; and also to consider the report of the Royal Commission in its bearing upon these matters and with respect to the possibility of saving the Home Bank depositors from loss,” be referred to the Select Standing Committee on Banking and Commerce for such action as the Committee may deem advisable.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

TUESDAY, April 15, 1924.

*Ordered*,—That the name of Mr. Ward be substituted for that of Mr. Forke on the Select Standing Committee on Banking and Commerce.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

TUESDAY, May 6, 1924.

*Ordered*,—That the Report of Dr. Tory on Agricultural Credits, tabled on the 15th April, be referred to the said Committee.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

TUESDAY, May 13, 1924.

*Ordered*,—That the Select Standing Committee on Banking and Commerce be authorized to have their proceedings and such evidence as may be taken, printed from day to day for the use of the members of the Committee and of the House.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

14-15 GEORGE V, A. 1924

WEDNESDAY, May 14, 1924.

*Ordered*,—That the said Committee be granted leave to sit while the House is in session.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

TUESDAY, May 20, 1924.

*Ordered*,—That the name of Mr. Euler be substituted for that of Mr. Mitchell (resigned) on the Select Standing Committee on Banking and Commerce.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

TUESDAY, May 27, 1924.

*Ordered*,—That the Minutes of Proceedings and Evidence taken before the Select Special Committee on Agricultural Conditions last session be referred to this Committee.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

THURSDAY, June 5, 1924.

*Ordered*,—That the said Committee be instructed to lay on the table of the House as part of their sixth Report the minutes and proceedings of all their sittings during the present session prior to their adoption of the said Report.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

WEDNESDAY, June 11, 1924.

*Ordered*,—That the interim Report of the Royal Commission respecting the Home Bank be referred to the Select Standing Committee on Banking and Commerce.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*





## REPORTS

OTHER THAN PRIVATE BILLS  
(RESPECTING THE REFERENCE)

OF THE

### SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

#### FIRST REPORT

Private Bills.

#### SECOND REPORT

Private Bill.

#### THIRD REPORT

Private Bills.

#### FOURTH REPORT

Your Committee recommend that they be authorized to have their proceedings and such evidence as may be taken, printed from day to day for the use of the members of the Committee and of the House, and that Rule 74 relating thereto be suspended. (Presented, concurrence moved and concurred in, Tuesday, May 13, 1924. See pages 262 and 264, Votes and Proceedings.)

#### FIFTH REPORT

Your Committee recommend that leave be granted them to sit while the House is in session. (Presented, concurrence moved and concurred in, Wednesday, May 14, 1924. See page 267 Votes and Proceedings.)

#### SIXTH REPORT

Your Committee recommend that the Order of Reference be enlarged so as to embrace the study and consideration of the purpose, organization and operation of some type of properly administered Central or Reserve Bank. (Presented, concurrence moved, objected to, Wednesday, May 21, 1924. See pages 295 and 297, Votes and Proceedings. Concurrence moved, lost on division, Wednesday, July 2, 1924. See page 471, Votes and Proceedings.)

#### SEVENTH REPORT

Your Committee recommend that the Minutes of Proceedings and Evidence taken before the Select Special Committee on Agricultural Conditions, of last session, be referred to the Select Standing Committee on Banking and Commerce. (Presented, concurrence moved, concurred in, Wednesday, May 27, 1924. See pages 326 and 327, Votes and Proceedings.)

#### EIGHTH REPORT

Private Bill.

#### NINTH REPORT

Private Bills.

## TENTH REPORT

That pursuant to the Order of Reference from this House of the 31st March, 1924, your Committee, in view of the failure of the Home Bank, have considered the provisions of the Bank Act with a view to recommending such amendments to the Act as would better protect the interests of bank depositors generally, and would prevent similar occurrence in the future;

And your Committee are of the opinion that it is expedient to bring in a measure to amend the Bank Act and they therefore recommend that the said Act be amended as follows:—

That Section 56A of the Bank Act be repealed, and the following substituted therefor:—

*Inspection:*

56A. 1. "The Governor in Council on the recommendation of the Minister shall appoint a person who in his opinion has had proper training and experience who shall be charged with the performance of the duties hereinafter mentioned. Such person shall be designated 'Inspector General of Banks.' The Minister may direct some other such person to temporarily perform the duties of the inspector should the inspector, by reason of illness or other contingency, be unable to perform such duties."

2. The Inspector shall hold office during good behaviour, but may be removed from office by the Governor in Council for misbehaviour or incapacity, inability, or failure to perform his duties properly.

3. If the Inspector is removed from office for any such reasons the Order in Council providing for such removal and documents relating thereto shall be laid before Parliament within the first fifteen days of the next ensuing session.

4. The Inspector while holding office shall not perform any service for compensation other than the service rendered by him under the provisions of this section:

5. "The Minister may appoint or employ on the recommendation of the Deputy Minister of Finance and the Inspector, such persons with training and experience and such clerical assistance as may be deemed necessary to carry out and give effect to the provisions of this section. Persons so appointed or employed shall receive such salary or remuneration as may be fixed by the Minister."

6. The Inspector, from time to time, but not less frequently than once in each calendar year, shall make or cause to be made, such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient, and for such purposes to take charge of the assets of the bank or any portion thereof, if the need should arise for the purpose of satisfying himself that the provisions of this Act having reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound financial condition. The Inspector at the conclusion of each such examination and inquiry shall report thereon to the Minister.

7. A copy of all reports made by the auditors of a bank to the General Manager and to the Directors under the next preceding section shall be transmitted or delivered to the Minister by the auditors at the same time as such reports are transmitted or delivered to the General Manager and Directors.

8. The Inspector, or person acting under his direction, shall have a right of access to the books and accounts, documents, vouchers and securities of the bank, and shall be entitled to require and receive from the directors, officers and auditors of the bank such information and explanation as he may deem necessary for the performance of his duties.

9. The Inspector shall have all the powers conferred upon a Commissioner appointed under the Inquiries Act for the purpose of obtaining evidence under



## APPENDIX No. 1

oath, and may delegate such powers as occasion may require. Any person who refuses to give such evidence or to produce any book or document material thereto when required so to do shall be guilty of an offence against this Act.

10. Whenever the Inspector is satisfied that a bank is insolvent he shall report fully on the bank's condition to the Minister and the Minister may, without waiting for the bank to suspend payment in specie or Dominion notes of any of its liabilities as they accrue, request the Association or the President of the Association to appoint a curator to supervise the affairs of such bank, and such request shall have the same effect as if the bank had suspended payment in specie or Dominion notes of any of its liabilities as they accrued, and a curator shall forthwith be appointed as provided in section 117 of this Act.

11. The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister.

12. All salaries, remuneration and other expenses incidental to giving effect to this section shall be paid out of the Consolidated Revenue Fund, and the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon the average total assets of the banks respectively during the year, as shown by the monthly returns made by the banks to the Minister under section 112, and such assessment shall be paid by the banks.

13. All persons appointed under this section shall be officers of the Department of Finance, but the provisions of the Civil Service Act, 1918, shall not apply to such persons.

14. Any bank or any director, president, general manager or any officer of a bank who directly or indirectly makes a loan or grant or gives any gratuity to the Inspector or any other person appointed or employed under this section, and the Inspector or any such person who accepts or receives, directly or indirectly, any such loan, grant or gratuity, commits an offence against this Act, and is liable as provided in section 157 of this Act, in addition to any punishment otherwise provided.

15. The Inspector or any person appointed or employed under this section who discloses to any other person, except the Minister and the Deputy Minister of Finance, any information regarding a bank, its business or affairs commits an offence against this Act and is liable as provided in section 157 of the Act.

16. Provided, however, that the Government shall not incur any liability whatever to any depositor, creditor or shareholder of any bank, or to any other person, for any damages, payment, compensation or indemnity which he may suffer or claim by reason of this section or anything therein contained, or by reason of anything done or omitted to be done under the requirements thereof, or by reason of anything omitted to be done which is hereby required to be done, or by reason of any order or discretion of the Governor in Council or of the Minister in the execution or administration of the powers of any of them by this section conferred, or by reason of any failure or omission on the part of the Governor in Council or of the Minister or of the Inspector, or of any officer or employee of the Government to execute or discharge any power, authority or duty thereunder, or otherwise by reason of any default, negligence, mistake, error or omission in the administration or discharge of the powers or duties which in any circumstances are by this section intended or authorized to be executed or performed; and no such payment, damages, compensation or indemnity, nor any claim therefor, shall in any case be authorized, paid or entertained by the Government.

17. This section shall come into force on the first day of October, nineteen hundred and twenty-four, but it shall not be incumbent upon the Inspector to examine all of the banks under the section during the calendar year one thousand nine hundred and twenty-four.

14-15 GEORGE V, A. 1924

(Presented, Friday, June 20, 1924. See pages 423, 424, 425, Votes and Proceedings. Concurrence moved, concurred in, Monday, June 23, 1924. See page 432, Votes and Proceedings.)

### ELEVENTH REPORT

Your Committee have had under consideration the Order of Reference from this Honourable House, dated 31st March, 1924, which reads as follows:—

“That, in the opinion of this House, in view of the failure of the Home Bank, and of the fact that official prosecutions and inquiries have been instituted, including the Royal Commission which has been appointed to investigate the facts alleged in the petition represented by the depositors of the Bank and the affairs of the Bank generally; and considering that the evidence received and to be taken before the several tribunals will be available for consideration, the Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future; and also to consider the report of the Royal Commission in its bearing upon these matters and with respect to the possibility of saving the Home Bank depositors from loss,” be referred to the Select Standing Committee on Banking and Commerce for such action as the Committee may deem advisable.

And also the Order of Reference dated 11th June, 1924, reading as follows:—

“That the Interim Report of the Royal Commission respecting the Home Bank be referred to the Select Standing Committee on Banking and Commerce.”

Your Committee have sat from time to time, and have studied the Interim Report on the Home Bank submitted by Mr. Chief Justice McKeown and the evidence therein referred to.

Your Committee consider that the facts therein brought out and the evidence therein referred to clearly establish that the depositors of the Home Bank have no claim under the law of the land for compensation by the country on account of any loss they may suffer by reason of the failure of the Home Bank.

But your Committee are also of the opinion that, in view of the representations made to the Department of Finance in the years 1916 and 1918, the Government of the time could have made in 1916 and in 1918 an effective audit under Section 56A of the Bank Act, and if such an effective audit or thorough investigation into the Bank's affairs had been made it would have resulted:—

1. In the immediate liquidation of the bank, or
2. Its amalgamation with another bank, and that the effect would have been, no loss to the depositors in 1916 or 1918.

Your Committee have studied the evidence given before the Royal Commission by Sir Thomas White, who was then Minister of Finance, and particularly his statements: “I would never think of putting in a special auditor in a bank and taking chances, especially at a time like that, of closing the bank” (page 345); and further: “Under no circumstances would I have allowed a bank to fail during the period in question. I had many difficult and dangerous financial situations to deal with during the war. At its outbreak, in view of the panic which prevailed, the Government, at my instance, placed itself behind the banks of Canada and gave public assurance that it would loan them such sums as they might require to meet the conditions of the war, and would take



## APPENDIX No. 1

all further steps necessary to safeguard the financial situation during its continuance" (page 359); and further: "The action I took was in my discretion; in exercising his discretion, a Minister must have regards to conditions, because conditions have a direct bearing upon the consequences attendant on his action to the bank and the general situation. If you make a mistake in putting in an auditor, in peace time the consequences may be a run producing little effect upon the bank; if in war time, you may bring down the bank and, in addition, you may cause an unspeakable calamity to the country" (page 743).

Your Committee is not called upon to question the manner in which Sir Thomas White made use of the powers given to him, or whether he exercised his discretion correctly or otherwise.

Your Committee consider that the facts brought out in the Interim Report submitted by Mr. Chief Justice McKeown, and the evidence therein referred to, establish that the depositors of the Home Bank have a moral claim in equity for compensation by the country on account of any loss they may suffer by reason of the failure of the Home Bank.

(Presented, Tuesday, July 1, 1924. See page 463, Votes and Proceedings. Concurrence moved, concurred in, Thursday, July 17, 1924. See page 585, Votes and Proceedings.)

## TWELFTH REPORT

Your Committee recommend that the Government should study and consider the practicability of laying before Parliament at a subsequent date the establishment in the chartered banks of Canada of an additional class of savings account whereby all holders of deposits, who may place their money in such class of accounts, in any one bank or branch thereof, shall be protected against loss up to the sum of \$3,000 by the establishment of a fund on an insurance basis, the premiums of which will be contributed by the depositor and the bank in such proportion as may be determined and that the Government work out the details and actuarial data necessary for the establishment of the said proposal and upon conference with the banking institutions of Canada, that legislation may be enacted to carry out the results of the said conference and such scheme as may be evolved.

(Presented, Friday, July 4, 1924. See page 485, Votes and Proceedings. Concurrence moved, concurred in, July 15, 1924. See page 562, Votes and Proceedings.)

## THIRTEENTH REPORT

Your Committee, pursuant to the Order of Reference, dated 6th May, 1921, reading as follows:—

*"Ordered,*—That the Report of Doctor Tory on Agricultural Credits, tabled on the 15th April, be referred to the said Committee.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

have had under consideration the report of Dr. Tory on Agricultural Credits.

Said report shows that, of the nine provinces of Canada, seven already have on their statute books laws for the purpose of establishing public systems of agricultural credit; and

Whereas a study of the systems existing in these provinces shows that there is considerable variation in the systems, both as to method and detail; and

Whereas it is the purpose of all such rural credit systems to secure, through the better organization of security, loans for agricultural purposes at better rates of interest than have been current heretofore; and

Whereas it is doubtful if this purpose could be best served by the establishment of a Federal System operating in the above mentioned provinces in addition to and in competition with the systems already in existence or in provinces where the need has not been sufficient, in the opinion of the provincial authorities, so as to justify the establishment of such a system; and

Whereas it would seem to be wise, both from the point of view of efficiency and economy, if a Federal System is to be established, that it be a common system for the whole of Canada, and that, of necessity, would entail conferences between the federal and provincial authorities;

Therefore, your Committee recommend that the investigation of the subject be continued, in order to determine whether it be possible to co-ordinate the various systems of rural credit now in existence into a Federal System, applicable to the whole of Canada, and that legislation be prepared based on the said further investigations and calculated to meet the credit needs of the agricultural classes of the Dominion, and submitted to Parliament at its next session.

(Presented, Wednesday, July 9, 1924. See page 507, Votes and Proceedings. Concurrence moved, concurred in, Friday, July 18, 1924. See page 648, Votes and Proceedings.)

#### FOURTEENTH REPORT

Your Committee recommend that Subsection (f) of Section 76 of the Bank Act be amended by striking out all the words after the word "be" in the fifth line thereof and substituting therefor the following: "without the unanimous approval of the directors present at a regular meeting of the board or meeting specially called for such purpose, provided that the notice calling any such regular or special meeting shall set out specifically such aforementioned purpose."

(Presented, Wednesday, July 9, 1924. See page 508, Votes and Proceedings. See also pages 544 and 545, Votes and Proceedings.)

#### FIFTEENTH REPORT

Private Bill.

#### SIXTEENTH REPORT

Your Committee have had under consideration the various matters referred to them by the Order of Reference, and have reported on same from time to time.

Your Committee, in addition to numerous meetings of the sub-committees, have held thirty-nine sittings on twenty-seven separate days, have heard the evidence of ten witnesses, and have had twenty-three exhibits filed with them.

Your Committee submit herewith for the information of the House a printed copy of their proceedings, the evidence given before the Committee, and also certain documents submitted to the Committee as exhibits, but not contained within the proceedings.

Your Committee recommend that the Order of Reference, Reports, Proceedings, and the evidence given before the Committee, together with a suitable index to be prepared by the Clerk of the Committee, be printed as an appendix to the Journals of the House of the present session, and for distribution, and that Rule 74 be suspended with reference thereto.

(Presented, Thursday, July 10, 1924. See page 517, Votes and Proceedings. Concurrence moved, concurred in, Friday, July 11, 1924. See page 542, Votes and Proceedings.)

## SEVENTEENTH REPORT

Your Committee have had under further consideration and study the report of Dr. H. M. Tory on "Agricultural Credit," which was referred to them on May 6, 1924.

Your Committee find that the credit of persons engaged solely in farming or the tillage of the soil is affected by certain provisions of The Bankruptcy Act.

Your Committee, therefore, recommend that legislation be introduced at the present Session of Parliament amending The Bankruptcy Act as follows:—

"An Act to Amend The Bankruptcy Act.

"1. This Act may be cited as 'The Bankruptcy Act Amendment Act, 1924.'

"2. The Bankruptcy Act is amended by inserting after section 8B thereof the following section:—

"8C (1) Notwithstanding anything contained in this Act, if the Lieutenant-Governor in Council of any province has authorized any officer of the provincial government, charged under a provincial statute with duties which in the opinion of the Lieutenant-Governor in Council are analogous in any respect to the duties of custodian and trustee, to act as custodian and trustee under this Act, the Official Receiver shall in the case of an assignment by a person engaged solely in farming or the tillage of the soil appoint such officer as custodian.

"(2) Any officer so appointed to the office of custodian by the Official Receiver shall thereupon in addition to such office be and be deemed to be the authorized trustee as if appointed under subsection (1) of section 15 of this Act, and shall continue to be the authorized trustee until properly removed under subsection (2) of the said section 15.

"(3) In case any such provincial officer is appointed custodian and trustee, he shall not be entitled to be paid any remuneration as custodian or trustee nor any of the costs enumerated as costs of custodian in Part III of the General Rules, but shall be entitled to his lawful disbursements.

3. Section 59 of The Bankruptcy Act is hereby amended by adding thereto the following subsection:—

"(2) Paragraphs "b" and "c" of the preceding subsection shall not apply in the case of an application for discharge by any assignor who at the time of the authorized assignment was engaged solely in farming or the tillage of the soil."

(Presented, Friday, July 11, 1924. See page 523, Votes and Proceedings.)





## ROYAL COMMISSION re HOME BANK

## INTERIM REPORT

*To His Excellency General the Right Honourable Lord Byng of Vimy, G.C.B., G.C.M.G., M.V.O., Governor General and Commander-in-Chief of the Dominion of Canada.*

In compliance with the Commission of Your Excellency dated the 27th day of February, 1924, by which I was appointed a Commissioner to make investigation into all material and relevant facts in relation to the Orders in Council attached to the above-mentioned Commission, I have the honour to submit the following interim report.

This report does not contemplate a consideration of all the matters referred to, but has to do with such of them as have a bearing upon the facts alleged in a petition presented to Your Excellency by an executive committee of the depositors of the Home Bank of Canada, dated the 23rd day of February, 1924, praying that those who suffered loss as such depositors because of the facts set out in the said petition, should be indemnified against such loss on grounds set forth.

The hearing in the matter was commenced before me in the city of Ottawa on the 16th day of April last, and evidence was taken under oath both at Ottawa and at Toronto on divers days between that date and the 20th day of May, 1924, inclusive; Mr. E. Lafleur, K.C., and Mr. H. J. Symington, K.C., appearing throughout as counsel for the Government of the Dominion of Canada; Mr. H. J. McLaughlin, K.C., Mr. A. G. Browning, K.C., and Mr. W. T. J. Lee appearing for the depositors during the continuance of the hearing; and in addition to the above-named counsel, Sir Thomas White, K.C., Mr. McGregor Young, K.C., and Mr. R. A. Reid appeared for different interests from time to time.

In view of the questions raised and argued before me during the investigation, it is well, I think, to clearly define the proper range of the present inquiry, as limited by the Orders in Council under which I am directed to act. No ambiguity attaches to them, and it is my duty to confine myself circumspectly to the letter of the instructions received.

I am the more desirous of doing so, inasmuch as the courts of the province, on their civil and criminal sides, are concerned with the conduct of many of those whose names have been mentioned in the testimony adduced before me, and actions both civil and criminal have been commenced against some of them. Regard for the obvious proprieties of the situation, demands complete reticence on my part concerning the issues which have been thus judicially raised and as to which the proper tribunals are now making inquiry. While some reference to their acts as such directors was unavoidable during the taking of the evidence, such reference was made for the most part wholly ancillary to the depositors' claim, and in explanation of the grounds upon which this claim is based.

I am further particularly concerned to confine myself strictly to what I am now directed to do, since it is said that the Parliament of Canada may be asked to take certain action in respect of the petition filed by the depositors, and I appreciate how jealously the frontiers of parliamentary responsibility and action are guarded. I do not consider that the commission requires me to set foot over that line. I am asked to answer these questions, and whether the findings of fact involved in such answers be accepted or not, or whether any

action may be taken upon them, is not for me to say. While I realize that I have permission to express an opinion on the result of the investigation and the evidence taken, I recognize that the responsibility for any action thereon really lies elsewhere, and those who carry that burden should, I think, approach their task unaffected by the expression of any opinion on my part. My duty, as I see it, is simply to put them in possession of definite answers to the questions submitted, as best I may. I have been urged by certain of the counsel to say that in my opinion compassionate allowance should be made to the depositors who have suffered loss, and also to pronounce what would amount to a finding of negligence on the part of some responsible for the administration of the Department of Finance in its oversight of the bank. While my right to discuss the discretionary acts of a minister of the Crown, where no dishonesty is alleged, has been sharply challenged by other counsel, on the ground that the jurisdiction therein abides with Parliament itself, nevertheless I have been further invited to express an opinion upon the diligence and honesty of administrative acts. But in strictly confining myself to answering the questions set out in the Orders in Council, I am constrained to lay aside any inquiry into matters suggested immediately above and to refrain from comments upon facts, concerning which various counsel have asked that pronouncement may be made, especially regarding the conduct of ministers of the Crown responsible for the administration of the department immediately involved.

While it would, I think, be impossible for one to follow the evidence and discussion without forming an opinion, and perhaps a strong opinion, upon the questions so raised, yet the expression of such opinion, to my mind, would serve no useful purpose, but rather cloud the direct issues to which I am commanded to give attention. It may be that other matters related to the Home Bank will be explored later, as coming within Order in Council number 412, directing the commissioner to investigate:—

“the affairs of the said bank during the whole interval between the issue of the bank’s charter and the failure of the said bank” etc., but in this interim report I am confining myself solely to the task of finding answers to the questions set out in the Order in Council number 306, which questions are as follows:—

“1. Whether, in the years 1915, 1916 and 1918, representations were made to the Department of Finance of the Dominion of Canada respecting the condition of the Home Bank of Canada, and, if so, what representations were so made.

“2. Whether, if such representations were made, a state of affairs was revealed concerning the condition of the said bank such as would have justified an investigation under the powers conferred upon the Minister of Finance by section 56A of the Bank Act.

“3. What action if any was taken by the then Minister of Finance upon such representations as may have been made.

“4. What effect would an audit under section 56A of the Bank Act if made in 1915, 1916 and 1918 have had upon the conduct of the affairs of the said bank and upon the position of the present depositors.

“5. What was the financial condition of the said Home Bank of Canada in the years 1915, 1916 and 1918, respectively, and what steps, if any, could have been taken by the Government to save the situation.”

Adhering to the course indicated above and in compliance with what I consider to be the directions of the commission in this regard, I desire to state specifically my answers to the questions above set out.



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Question 1 is as follows:—

"1. Whether, in the years 1915, 1916 and 1918, representations were made to the Department of Finance of the Dominion of Canada respecting the condition of the Home Bank of Canada, and, if so, what representations were so made."

It will be observed that this question contains two component inquiries:—

First, whether during the years mentioned any representations were made, and,

Second, if such representations were made, of what nature were they?

I think it was established by the evidence that in the year 1915 no representations were made to the Department of Finance respecting the condition of the bank.

With equal clearness it is apparent that during the year 1916 such representations were actually made to the Department of Finance. They are evidenced by exhibits submitted and filed numbered from "2" to "42" inclusive. These exhibits show that such representations originated from Messrs. T. A. Crerar, John Kennedy and John Persse, who then were directors of the Home Bank, residing in Winnipeg. In these communications, as well as in many others, Messrs. Crerar, Kennedy and Persse are termed "the western directors," and it is clear that originally they assumed such position with a view especially of scrutinizing the operations of the bank in Manitoba and the western provinces of Canada. Such representations took the form of three separate communications to the then Minister of Finance, each bearing date the 22nd day of January, 1916, the first of which in order of filing is headed:—

(Ex. 2. p. 12).

"*Re* Home Bank of Canada.

*Re* Prudential Trust Loan.

Confidential memorandum to the Minister of Finance."

It is signed thus:—

"James Fisher,

For Western Directors."

The second communication is headed:—

(Ex. 3. p. 15).

"*Re* Home Bank.

Confidential memorandum *re* Barnard loan."

and is also signed:—

"James Fisher,

For the Western Directors."

The third communication is headed:—

(Ex. 5. p. 17).

"*Re* Home Bank of Canada.

Confidential memorandum to the Honourable, the Minister of Finance, from Messrs. Crerar, Kennedy and Persse, Directors of the Home Bank residing in Winnipeg."

and is signed:—

"James Fisher,

On behalf of and by instructions of the three Western Managers."

There are contained in the communications themselves, as well as in the accompanying statements attached, particulars concerning various loans and complaints about the way the bank's business was being transacted and other matters which will be detailed as far as necessary in answer to the second part

of this question. There were also submitted to the Minister of Finance at that time, accompanying such communications, many letters written by and on behalf of the western directors, and replies thereto, covering the period extending from the 17th day of February, 1915, to the 18th day of January, 1916.

From all this correspondence it is apparent that in the year 1915 the affairs of the bank were under criticism on the part of the western directors, and that they were making complaints to the eastern directors concerning certain loans and the general lack of oversight and proper care that existed, and this is especially evidenced by the communication of February 17, 1915, by Messrs. Crerar, Kennedy and Perse to A. C. Macdonell, M.P. (ex. 10, p. 24).

The letters which passed between the western and eastern directors, of the year 1915, are attached to the file brought to the attention of the department in the year 1916, and admittedly came under the attention of the Minister of Finance at that time.

It is therefore abundantly clear that as far as the year 1916 is concerned, it must be reported that representations were made to the Department of Finance of the Dominion of Canada respecting the condition of the Home Bank of Canada.

The same answer must be made as regards the year 1918, for all the communications and documents above referred to were again brought to the attention of the Minister of Finance in the year last mentioned and he received further representations concerning the condition of the bank by way of a communication from Mr. W. A. Machaffie, for many years an official of the Home Bank. The contents of these communications will be referred to in answer to the second part of this question.

In addition to the above, there were also interviews during the years mentioned between the then Minister of Finance and the president and other directors of the bank as well as with Mr. Z. A. Lash, counsel for the Home Bank.

Summing up what is above written as regards the first part of question number 1, I repeat that no representations were made to the Department of Finance of the Dominion of Canada respecting the condition of the Home Bank during the year 1915; but that such representations were made to the Department of Finance during the year 1916, and during the year 1918.

Turning now to the second part of this question, which asks what representations were made:—It is to be noted that they take the form of three special memoranda, each bearing date the 22nd of January, 1916, and signed by James Fisher for or on behalf of the western directors (ex. 2, p. 12; 3, p. 15; and 5, p. 17). Of these, one is more general in its character and will be referred to first in order (ex. 5). It drew to the attention of the Minister the fact that out of a paid-up capital of not quite two millions of dollars, about \$500,000 was held in the West; that a few years then previous, three western stockholders were placed on the board of directors to deal with the western business; that they met weekly and reported regularly their action to the head office. No eastern director met with them, and none of the three attended the head office meeting in Toronto unless specially requested. Also that in the fall of 1914 the western members became apprehensive that the business of the Toronto branch was not in good condition whereupon they went to Toronto about the middle of November of that year, for the purpose of acquainting themselves with the condition of affairs of the home branch, as well as to make complaint of the lack of money for loans in their part of the country; that upon their request meetings of the directorate of the bank were at once called, lasting for four days, during which they for the first time learned that there was no regular inspection of the Toronto office, the reason alleged being that the business there transacted was under weekly supervision by the eastern members of the board. The complainants set out that they were not satisfied with the information furnished at these



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meetings, especially as to certain accounts, one of which on the first day of meeting was reported at the figure \$1,100,000, but on the second day an error was admitted to have been made, and the amount was raised to \$1,500,000, and on the third day it was placed at \$1,780,000; and concerning which loan it appears that even the largest figure given was too small, for at the meeting on the 30th of the following month, it was disclosed that the amount involved was nearly two millions of dollars. They also learned that the general manager was indebted to the bank in a sum first reported as \$35,000, and which was afterwards disclosed to be \$76,000, and the like situation existed regarding other customers (ex. 10, p. 24). It was further represented to the minister that although they had urged an immediate inspection of the Toronto office, and that the report be ready for the next annual general meeting, it was not ready at that time, and the annual report of the bank had been sent to Ottawa without the western directors knowing of its contents. Also that they refused to acknowledge the validity of the election of Messrs. Barnard and Haney to the board of directors, in the place of Messrs. Gooderham and McNaught, who had resigned, and the western directors notified the manager that they held themselves free to contest the validity of these elections (ex. 9, p. 23). Another matter of complaint was that at the December meeting a resolution had been submitted and approved to the effect that a committee be appointed consisting of the assistant general manager and two others to carry on the affairs of the bank, and to specially pass upon all credits and make every possible effort to collect all overdue loans, and submit the earliest possible statement showing the present condition of the bank, with recommendations, which resolution was not pressed to its passage as the general manager was at that time out of the country in ill-health, but it had been agreed that this course would be taken, but the agreement was ignored and nothing done pursuant to these plain directions (ex. 10, p. 25). This communication was of a general nature, and in that sense supplementary to the particulars set out in the other two accompanying memoranda referred to below, but all the matters above noted were contained therein, and in accompanying exhibits, and thereby brought to the attention of the Minister of Finance.

The memorandum filed as exhibit number 2 is of the same date and has reference to the loan made by the bank to the Prudential Trust Company. The facts laid before the minister in this document showed that the bank had parted with \$500,000 in a transaction involving the Prudential Trust Company and the New Orleans Southern and Grand Isle Railway Company, which was explained by the general manager in a communication to Mr. Crerar, under date of December 24, 1915 (ex. 31, p. 53), part of which reads:—

*“James Mason to T. A. Crerar*

“Messrs. Warren, Bristol and Morden were the promoters of the reorganized New Orleans Southern and Grand Isle Railway Company, and as such made application to the Prudential Trust Company, Limited, for a loan of \$500,000, which the trust company agreed to make, provided the bank would advance to the trust company the necessary funds. It was afterwards discovered by the solicitor for the trust company that under its charter it could not make the advance, but could accept the funds from the bank for investment by way of loan to the railway company and that the trust company could guarantee repayment to the bank—there was no connection between Warren, Bristol and Morden and the bank—their dealings being direct with the trust company.”

There is a feature of this loan upon which I desire to make no comment, but feel it necessary to state, and that is, that apparently, preliminary to the



loan being made by the bank, a like sum of \$500,000, being trust funds of one of the provinces, then in the hands of the Prudential Trust Company, was deposited in the Home Bank. It was considered by certain of the directors that in some way these funds would be security for the loan to the trust company, but obviously such could not be the case, and on reference to the bank's solicitor, advice to that effect was obtained. The security taken for this loan was a note signed by the Prudential Trust Company in favour of the Home Bank of Canada, and \$750,000 of bonds of the railway company as collateral security. Now this loan represented a very large proportion of the bank's capital, and the western directors whose amounts for western accommodation were being curtailed, were unsparing in their criticism of the transaction. The exhibits show a great deal of activity concerning this loan; the trust company made no effort to repay it, and the same may be said of the railway company.

Their third communication to the minister (ex. 3, p. 15), deals with a loan to C. A. Barnard, who had become a director of the bank, and concerning whose election the western directors protested, as above referred to. It sets out that from the report of the inspector of the Toronto office made in June, 1915, it appears that C. A. Barnard was indebted to the bank in the sum of \$394,000, and that 2,622 shares of Home Bank stock were held in the name of Barnard and Pellatt in trust. The inspector pointed out that there was no trust deed held concerning these shares, and that they would have to realize about 125 per cent to enable the bank to avoid a loss. It will be shown a little later that in addition to these three large amounts other individuals and companies were shown to be indebted to the bank in sums wholly disproportionate to the bank's assets, but in their first communications the western directors called the attention of the minister to these three large accounts then representing more than the whole paid up capital of the institution. They complained as to the Barnard loan that they never could get any satisfactory explanation of the transaction; that it had been explained by Col. Mason at the November meeting in 1915 that it was connected with the taking over of the Banque Internationale, but how it came to be made or what its object was, complainants say they could not ascertain; neither could they understand, nor were they informed, as to the relationship of the bank shares to the loan in question; and by the submission of these three accounts and others mentioned in the exhibits, they brought the attention of the department to the condition of the bank. I do not conceive it to be my duty to enter into detailed history or explanation concerning these loans; I am answering the question as to what the representations were, and it is apparent that the existence of three accounts, viz: the Prudential Trust Company, C. A. Barnard, and the A. C. Frost Company, involving at that time the withdrawal from circulation of over two and a half millions of dollars of the bank's funds (ex. 4, p. 16, and 35 p. 59), upon which no interest was being paid, and to some of which addition was being made from time to time, was relied on by the western directors in their complaint against the bank management. They further showed that by a statement placed before the board of directors at the meeting in September, 1915 (ex. 4, p. 17), the Barnard account and the Prudential Trust Company account, and other accounts mentioned below, had been increased from December 31, 1914, and August 31, 1915, in the amount of \$192,849.30. Increases involved in the A. C. Frost Company account and the Pellatt & Pellatt account were responsible for the greater part of this sum and except incidentally in the statement of increases mentioned above, the indebtedness of the last named firm was not placed before the minister in the year 1916. This branch of question number 1 is two-fold:—

First, as to what representations were made in 1916; and,

Second, what representations were made in 1918. Coming now to the representations made in the year 1918, it will be observed that everything that was placed before the department in 1916 was still available, as well as an addi-

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tional representation contained in the letter of Mr. W. A. Machaffie, who signed himself "Late assistant to the president"; and under date of August 29th, 1918 (ex. 88, p. 178) communicated certain very important facts concerning the condition of the bank to the then Minister of Finance, by registered mail. He drew the reports of Mr. Fisher, made in February, 1916, to the Minister's attention, and also referred to the A. C. Frost account—which will be mentioned below—as well as to certain shipbuilding transactions in which he alleged that the bank, as well as the president and one of the directors, were interested with a Mr. Stewart whom he described as a personal friend of Mr. Haney, the vice-president; he made the serious charge that the dividends which had been declared during the years 1916 and 1917 had been based on the addition of interest to doubtful accounts; that section 153 of the Bank Act had been violated; and that Home Bank officials, unwilling to share in what he termed the "guilt" of making false returns, were obliged to resign; that the auditor who had the affairs of the bank under examination was incapable of filling that position; that information was withheld by the officials of the bank from their counsel, Mr. Lash. Taken as a whole, the nature of this communication was such as to cause the liveliest apprehension concerning the financial standing of the bank, and concerning the safety of the funds entrusted to it, if even only a portion of such representations were true. And from the particulars furnished to the Minister by officials of the bank in response to his demand for information bearing upon the accounts referred to in the communications sent to him, it appeared that the indebtedness of the Prudential Trust Company to the bank on the 15th of November, 1918, had risen to the sum of \$933,747.74 (ex. 107, p. 194). This large increase was due, for the most part, to a further expenditure, the object of which was to protect the original investment, but which in 1918 gave little promise of assisting to work the account out. The account of A. C. Frost & Co., sometimes referred to as the British Columbia timber account, was reported on 30th November, 1918, as an indebtedness of \$2,425,288.58 (ex. 108, p. 200). The Pellatt & Pellatt accounts showed that \$1,900,960.69 of the bank's funds were locked up therein (ex. 109, p. 201). A portion of these capital sums represents interest on the original investment, and the bank's statement to the Minister also revealed the disquieting fact that unpaid interest amounting to \$688,962.42 on the Frost account and \$234,955.11 on the Prudential Trust Co. account, had been added to the principal and taken into profits (ex. 107, p. 195).

It was therefore abundantly clear that the management of the bank had resulted in an amount over twice its paid-up capital and reserve being locked up in accounts not realizable, and for the most part not bearing interest, from which it followed that whatever funds were available from day to day were those of the depositors, and notwithstanding the declaration of dividends, a proper accounting would have shown that no profit at all had been made for years. The bearing of these facts upon the condition of the bank is specifically enquired of in the next quotation and will, I think, be more properly considered thereunder.

*Answer to question number 1:—*

A. In the year 1915 no representations were made to the Department of Finance of the Dominion of Canada respecting the condition of the Home Bank of Canada. Such representations were made in the year 1916, as well as in the year 1918.

B. The following important representations were made to the Department of Finance concerning the condition of the Home Bank during the years 1916 and 1918, viz:—

(1) That an amount more than double the total paid up capital and reserve of the bank was locked up in four accounts, the securities for which could not be realized upon.



(2) That loans wholly disproportionate to the assets of the bank had been made on inadequate security, from which large loss was likely to occur.

(3) That amounts representing unpaid interest on at least three large accounts were carried into profit year by year and dividends declared on the basis of much fictitious earnings.

(4) That arrangements agreed upon at a meeting of the board of directors with a view of passing upon all credits and making an early statement showing the bank's position, with recommendations, were not carried out.

(5) That false returns were made by the directors of the bank to the Department of Finance.

(6) That specific instructions given by the Minister of Finance in 1916 forbidding the capitalizing of unpaid interest, were disobeyed.

(7) That the president and some of the directors were indebted to the bank in large sums upon personal account and through companies in which they had an interest.

(8) That the auditor employed by the bank from year to year was incompetent and important matters were concealed from the board of directors and from Mr. Lash the bank's counsel.

Question number 2 reads as follows:—

“Whether, if such representations were made, a state of affairs was revealed concerning the condition of the said bank such as would have justified an investigation under the powers conferred upon the Minister of Finance by section 56A of the Bank Act.”

Argument was presented in support of the proposition that the minister is responsible to parliament alone, and that unless he were charged with dishonesty or bad faith in the performance of his duties, the exercise of his discretion could not be challenged by this commission. I am not disposed to dispute this contention, seeing that the only duty imposed upon me under this question is to say whether the representations made to him were such as to justify him in calling for an audit under section 56A of the Bank Act.

I am not called upon to question the manner in which he made use of the powers therein given to him, nor whether he exercised his discretion correctly or otherwise. It is easy to conceive that certain representations might be made to a minister which would be of such a nature as not to call for the exercise of the rights given to him by this section of the statute, while on the other hand it is equally obvious that other representations might be made of a character which would not only justify the exercise of his discretion, but would make it a matter of careless administration if he should not do so. How such discretion should be exercised is a matter by itself, and must be for the determination of the head of the department. If any fault is to be found with the minister as to how his discretion was exercised, the complaint must be tried before parliament itself, always assuming honesty and integrity of purpose on his part, and no question whatever was, or could be, raised in that regard. But it is open to me I conceive, to say whether such a state of affairs was revealed as would call for the exercise of the discretionary powers vested in the minister. In answer to the preceding inquiry, I have detailed the representations which were made, and, taking them as a basis for my answer to this question, I do not think that any doubt can be entertained that what had been so represented was of sufficient importance to call for an audit under section 56A of the Bank Act. I am in harmony with the view of Sir Thomas White, as shown in his evidence at page 345 of the record:—



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"Q. As a result of the memorandum and other documents filed with you by Mr. Fisher, you proceeded under section 113 of the Bank Act to ask for a report?—A. I did.

Q. You also decided that it would justify an investigation under section 56A?—A. I asked the auditor to make a report to me.

Q. That is under that section?—A. Yes, 56A, without doubt I proceeded under the Bank Act.

Q. Well, you might answer my question, you felt yourself justified in asking for a report under section 56A of the Bank Act?—A. Yes, undoubtedly, and calling on the board and on the auditor.

Q. Did you call on the auditor for a report under section 56A of the Act?—A. Right."

It will be remembered that in his argument Sir Thomas White contended, with reference to the evidence above quoted, that in answering these questions as he did, he was not committing himself to the view that an outside auditor should have been called in, but that he was confining his testimony to an assent on his part that the auditor appointed by the shareholders should make report, and he said that if the questions had been put to him plainly as to his being justified in calling in an outside auditor, he would have answered them in the negative, for the reason that, in his opinion, the conditions prevailing in the bank at that time would have meant that calling in an outside auditor would have necessitated closing its doors.

The powers given under section 56A of the Bank Act, as it stood in 1916, were not confined to the employment of an outside auditor, or to the employment of the regular bank auditor either. The provision was to the effect that the minister could direct any auditor "to examine and enquire especially into any of the affairs or business of the bank", and the argument was, that an auditor wholly detached from the bank should have been selected, whereas the minister, in the exercise of his discretion, for the reasons indicated, thought best to appoint Mr. Jones, the regular auditor of the bank. There is no necessity for the expression of any opinion upon my part as to whether the minister should have engaged an inside or an outside auditor for this work; either one could be appointed by the minister under that section according to his discretion and the evidence above quoted shows that the minister exercised his discretion under the section in question by the appointment of Mr. Jones. It must therefore follow that to his mind the conditions prevailing justified the investigation under the authority of section 56A of the Bank Act, altogether apart from the question whether it should be made by one class of auditor or the other. The enquiry up to this point, has, I think, brought us to the conclusion that the reason that an outside auditor was not appointed was that the minister feared such action would result in the collapse of the bank. It is not said by anyone that the exercise of the powers given by section 56A were not or should not, have been called into action. The argument put forward by counsel for the shareholders was, that such discretion as the minister saw fit to exercise was really useless. The statement that an outside auditor would have closed the bank, throws some light upon that contention.

The letters which passed between Sir Thomas White and the president of the bank and Mr. Lash and others, show that it was with considerable reluctance that the minister relinquished his first idea of calling the attention of the Bankers' Association to the condition of the bank, but that he was moved thereto by representations of a betterment of condition by change of management, and by statements made by Mr. Lash, in whom, it is unnecessary to say, he reposed a very great deal of confidence; but inasmuch as it is admitted that these representations resulted in calling upon the auditor of the bank under

section 56A, it is hardly necessary for me to amplify reasons which have led me to the conclusion that the state of affairs revealed by the representations made, justified an investigation under the powers conferred upon the minister by section 56A of the Bank Act, for what the minister did shows it. That he considered the situation to be a serious one, is evidenced by his letter to General Mason, then the president of the bank, written under date of January 24th, 1916, (ex. 43, p. 75), immediately after receiving the complaint of the western directors through Mr. Fisher. It will be remembered that these representations and complaints were not made by outside people, or by individuals to whom some personal grievance or antagonism towards the bank could be attributed; they emanated from persons bearing the responsibility of the institution, being directors, entrusted by their shareholders with seeing that an honest management prevailed. In this letter the minister said that he considered it his duty to ask for full particulars, both from the board and from the auditor, as to the accounts of the Prudential Trust Company, Pellatt and Pellatt, and A. C. Frost and Co., with a detailed statement of securities held. In answer to a letter received from the president, asking the minister if he would have the thirty days referred to in section 113 of the Bank Act to make such return, the minister advised him that the matter was of so serious a character that he thought it advisable that the reply should be completed and forwarded at as early a date as possible.

In writing to Mr. Fisher upon the subject, (ex. 54. p. 86) Sir Thomas further said:

“You make certain definite explicit charges, which I conceive it to be my duty to investigate.”

This latter sentence describes the effect produced upon the minister by the communications.

The evidence discloses that after the receipt by Sir Thomas White of the communications from the western directors, attempts were made to change the management of the bank so as to meet with the approval of all the directors, and such attempts were well known to the Minister of Finance, being conducted mainly through the late Mr. Z. A. Lash, K.C., who had personal interviews and carried on correspondence with the minister concerning the matter. But notwithstanding the desirability of having the whole directorate in accord, Sir Thomas White did not consider that to be a solution of the difficulty, and defined his position in a letter of February 17th, 1916, written to Mr. Lash in these words: (Ex. 71, p. 162.)

“*Sir Thomas White to Z. A. Lash.*

“*Re Home Bank of Canada:*

“DEAR MR. LASH:—I have your private letter of the 14th instant and think I must ask you for the statements to which you refer. In themselves they may disclose a situation which apart altogether from the question of other accounts would cause me to bring the affairs of the bank to the attention of the Bankers' Association through its president here. The position is that I have been made aware by the Winnipeg directors of a certain condition which is most disturbing. It does not appear to me that I would be justified in staying enquiry because the Winnipeg directors may ask me to suspend action. The real question is whether the bank, having regard to the condition which will be disclosed by the statements should be allowed to continue business with the public. I shall be glad, therefore, if you will send me those statements. It would



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not appear to me necessary that you should specially come down about the matter but I leave this to your discretion. I shall desire, of course, to give the reorganized board and management every opportunity to restore the bank's position, but this statement must be taken subject to the overriding consideration of the public interest."

This was the view taken of the matter by the minister both in 1916, and two years later, when his attention was again drawn to it by Mr. Machaffie's letter. The serious character of the representations made therein was appreciated by the minister, as shown by his letter to Mr. Lash under date of September 4th 1918. He enclosed a copy of the Machaffie letter and asked Mr. Lash to take the matter up with the board of directors, and expressed himself as follows:— (ex. 90, p. 179).

*"Sir Thomas White to Mr. Lash.*

"I regard the matter as of the utmost public importance, and it is my intention to have a thorough investigation made through the Bankers' Association or otherwise. Before taking this step, however, I wish to have a reply from Mr. Haney and his board."

All I am at present directing my attention to is, whether or not the representations made would have justified an investigation under section 56A of the Bank Act. From the testimony above quoted, and from the letters, extracts from which are set out above, it is very apparent to me that the representations made were regarded, on all sides, as of a character which would justify such investigation, and, I thoroughly agree with that view.

*Answer to question 2:—*

The condition of the bank, as revealed by the representations made, was such as to justify an investigation under the powers conferred upon the Minister of Finance by section 56A of the Bank Act.

Question number 3 reads as follows:—

"What action, if any, was taken by the then Minister of Finance, upon such representations as may have been made."

It is apparent that the answer to this must be shown by the communications which passed between the minister and the bank and parties in interest. They disclose in the first place, a lively apprehension on the part of the minister concerning the position of the bank, and a desire to keep it upon its feet.

Confining myself first to the year 1916, it is evident that the minister acted promptly on the receipt of the three memoranda from the western directors, for on the 24th of January, 1916, he addressed a letter to the president of the bank, detailing the information submitted to him by Mr. Fisher and the complaints made. After referring to the accounts of the Prudential Trust Co., Pellatt & Pellatt, and the A. C. Frost Co., the safety and security of which were challenged, the minister concludes his communication to the president of the bank as follows (ex. 43 p. 76)—

*"Sir Thomas White to James Mason.*

"I shall be obliged if you will write me officially, setting out concisely the history of these loans and indicating the amounts of unpaid interest (if any) in such accounts. I also request a detailed statement as to the securities held as collateral and the valuation placed upon them by your bank. Apart altogether from the question of security, the loans appear to me to be exceedingly large, having regard to the capital of your bank



and I can only express the hope that the concern which is undoubtedly felt by the directors mentioned may prove to be unfounded. In directing to you this letter with reference to the memorandum which, as I have stated, has come before me officially, I am following the practice which we have hitherto adopted in similar cases and am acting under the provisions of section 113 of the Bank Act."

On the same day the minister addressed a letter to the auditor of the bank, Sydney H. Jones, enclosing a copy of the letter which he had sent to the president, as follows: (ex. 46. p. 78.)—

*"Sir Thomas White to Sydney H. Jones.*

*"The Home Bank of Canada.*

"For your information I enclose herewith copy of a letter I have today addressed to Hon. James Mason, president of the above bank, referring to a memorandum which has been officially filed with me respecting certain accounts of the bank and requesting detailed information.

Under the provisions of section 56A of the Bank Act, I now direct and require you as auditor to enquire into the accounts mentioned and report to me in all proper detail respecting them. Your prompt attention will greatly oblige."

Mr. Jones acknowledged the receipt of this letter on the 26th of January 1916, but, further than that, he seems to have paid no attention to the directions sent him by the minister, who again addressed him on the 24th of the following month as follows:— (ex. 59. p. 89.)

*"Sir Thomas White to Sydney H. Jones.*

*"Re Home Bank of Canada.*

"Referring to my previous letter requesting an investigation by you of certain accounts of the above bank, I shall be glad if you will send me as soon as possible a detailed statement showing advances, repayments, and interest charges on the A. C. Frost Company account. The western members of the Board have thought it desirable that I should obtain this information. Your prompt attention will oblige."

This communication was acknowledged by Mr. Jones on the 26th of February 1916, and on the first day of March following he forwarded a statement showing details of advances, repayments and interest in the A. C. Frost Company account, which he said that he had duly verified by the books of the bank. (Ex. 61. p. 90.) This is all that was done by the minister or the auditor under the provisions of section 56A of the Bank Act.

It is apparent that the minister relied with confidence upon the opinions expressed by Mr. Lash, counsel for the bank, and accepted his conclusions. The result was, that in consequence of the representations made by Mr. Lash and the directors, acting then in harmony, Sir Thomas consented to allow them to work the situation out, but in assenting to this it is plain that the mind of the minister was hardly at rest and his opinion concerning the condition of affairs can easily be gathered from his letter to Mr. Lash as follows: (Ex. 84, p. 175).

*"Sir Thomas White to Z. A. Lash*

"I have yours of the 23rd inst., in which you set forth substantially what occurred at our interview on Wednesday. You clearly understand that I reserve to myself the fullest liberty to consult with the president of the Canadian Bankers' Association, or take any other steps which I may deem to be in the public interest without further communication

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with Mr. Haney or yourself on the subject. In the meantime it appears to me from the statement of yourself and Mr. Haney and from Mr. Crerar's letter that the position of the bank is being improved. I should like to have from you an assurance that interest upon the Frost account will not be taken into profits distributed to shareholders in the way of dividends. It would appear to me also that until the New Orleans situation is cleared, it would be advisable to pursue a similar course respecting that account."

Within a week from the receipt of the letters from Mr. Fisher, the minister had interviews with Mr. Haney, vice-president of the bank, and Mr. Barnard, then a director (ex. 51, p. 80), whose dealings with the bank were criticized, and impressed upon them the necessity of bringing pressure to bear on the doubtful accounts, and the danger of showing unpaid interest as profit. This was followed by communications to the minister from Mr. Fisher, K.C., and Mr. Lash, K.C., and a communication from J. Cooper Mason, acting general manager of the bank, to the minister, enclosing papers and documents showing in full the statements of the accounts which were challenged (ex. 63, p. 93). All these communications were written and information supplied within four weeks from the time of the receipt by the minister of the complaint from the western directors, which shows that no time was lost on his part in an effort to secure the necessary information. The correspondence shows that the minister was not convinced that, because the eastern and western directors had settled their difference, he should stay his hand from a thorough and complete investigation of the bank's affairs (ex. 71, p. 162). But further correspondence carried on by Mr. Lash and Mr. Crerar, and personal interviews with the two latter as well as with Mr. Haney, and information furnished concerning the accounts—much of it misleading and false—and promises of a thorough investigation of the bank's affairs under the direction of Mr. Haney and Mr. Machaffie, and information supplied by both these gentlemen (ex. 83, p. 172) and the minister's desire to prevent the collapse of any bank in view of war conditions, resulted in his acquiescing in the unanimous request of the whole board that no investigation should be made. No other report from the auditor was asked for or received. It was represented to the minister, in a letter signed by Mr. Crerar (ex. 81, p. 171) that a change in management had taken place by which he expressed himself certain that the knowledge and information concerning the position of affairs desired by the western directors, and the changes they wished when they sent their request to him, could now be made without calling in outside assistance; that the situation had materially improved within the past month, and that it was better to have the inquiry proceed from within rather than from without.

If the information thus furnished to the minister concerning these accounts had been accurate, I think it is reasonably clear that the course adopted was in the interest of everybody, including the depositors; but it is difficult to conclude that they had made a full disclosure to the minister concerning the situation which Mr. Lash described by letter written on the 29th of February, 1916, to Mr. Fisher, in these words (ex. 132, p. 292):—

*"Z. A. Lash to James Fisher*

"The more I consider the bank's position, even assuming that every account will ultimately be collected in full, the more doubtful I feel as to the possibility of its continuing in business. The amount locked up indefinitely in four large accounts, is probably three times the paid-up capital, and more than half the total deposits; and if anything should take place which would cause a comparatively small percentage of the depositors to ask for their money, I do not see how the bank would, without assistance from outside, continue with open doors.



"I told Sir Thomas that my main object, since I learned in outline what the bank's position was, has been to bring about a position, which, if the worst happened, would result in liquidation with open doors. This can only be brought about by the assistance of other banks, and I want definite instructions from the board as to how far I may go in this direction in consultation with Sir Thomas White, for he is now an essential element in the situation, which cannot be disregarded. He told me, and I could not dispute the correctness of his position, that, after you, on behalf of the Winnipeg directors, had submitted to him information which, to say the least, was very disturbing, the responsibility was thrown upon him, which he could not avoid, and which would not be discharged because those who had invited his intervention might desire him to withhold further action."

Attention may be drawn here to the fact that this communication was not addressed to Sir Thomas, nor is there any evidence that he was in possession of Mr. Lash's views as above expressed. Following the representations above referred to, the hand of the minister was stayed, no inspection was ordered, and the audit, if it can be called such, was useless.

Attention was drawn by Mr. Lafleur, of counsel for the Government, to the unwisdom of seeking information from the parties whose good faith was challenged, and he strongly urged that the only proper course to have pursued would have been to have sought information from an outside source. I am not asked to comment on the course taken by the minister, but simply to say what he did. It is open to all concerned to draw whatever inferences the circumstances would seem to justify in that regard.

Upon receipt of the complaint, in 1916, the first action taken by the minister was to direct an enquiry into the accounts complained of, and a report thereon by Mr. Jones, the bank's auditor, under section 56A of the Bank Act. (ex-46-p-78). And at the same time he called upon the president of the bank for special returns under the provisions of section 113 of the Bank Act. (ex-43-p-75).

Turning to the consideration of what was done by the minister in 1918, when further complaint was made, it is clear that upon the receipt of the letter from Mr. Machaffie, dated the 29th of August 1918 (ex-88-p-178), the minister lost no time in communicating its contents to Mr. Lash, as appears by his letter dated September 4th 1918, in which he enclosed a copy of Mr. Machaffie's letter to him, and asked that it be taken up with the board of directors and a report be made. The letter reads as follows:—(ex-90-p-179).

*"Sir Thomas White to Z. A. Lash*

*"Re Home Bank*

"DEAR MR. LASH,—I enclosed herewith copy of a letter which I have received from Mr. Machaffie, late assistant to the president of the above bank. I shall be glad if you will take the matter up with the board of directors and have a report prepared dealing with the several charges made. I regard the matter as of the utmost public importance, and it is my intention to have a thorough investigation made through the Bankers' Association or otherwise. Before taking this step, however, I wish to have a reply from Mr. Haney and his board."

Absence of Mr. Lash and illness of Mr. Haney seemed to be the cause of a delay in forwarding the board's reply to the charges made by Mr. Machaffie, but it was eventually sent to the minister under date of October 29th, 1918. (ex-96-p-182). The report is a voluminous one, touching upon all of the doubtful accounts, denying the charges contained in Mr. Machaffie's letter, and



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picturing a condition of affairs with reference to the bank, which, if true, would have disproved the necessity of action being taken. It is in the form of a resolution of the board of directors, dealing with all the matters complained of by Mr. Machaffie, and signed by the president. The regrettable thing about it is that in very many respects it was not true. But its receipt seems to have satisfied the minister that the proper course to be taken under the circumstances was to allow the bank officials to work out the situation. Having said so much about Mr. Machaffie's letter, it is right, I think, for me to say, that its force in anybody's mind would very naturally be broken by the fact that on the 25th of February, 1918, Mr. Machaffie had drafted a letter to the Minister of Finance (ex-135-p-390) in which he made representations concerning the Pellatt account, the New Orleans account, and the Frost account, commenting adversely upon them, and saying that there were numerous other accounts in a precarious condition, and sharply criticizing the policy of the president, Mr. Hancy. This letter was not sent to the Minister of Finance, but a copy of it was forwarded to the Home Bank. (ex-146-p-402). Mr. Machaffie subsequently retracted all these statements in a letter to the bank, admitting that his information was inaccurate and incomplete, and that his first letter would have conveyed a wrong impression as to the condition of the bank and the conduct of its affairs. Now the minister was acquainted with the fact of this withdrawal, and that the reason Mr. Machaffie had retracted these statements was, that he might procure a settlement of his claim against the bank. If the accuracy of the information concerning the banks' affairs had depended upon Mr. Machaffie's representations, while perhaps it would be too strong to say that no attention whatever should have been paid to him, yet the fact remains that he had retracted them under circumstances that would very materially weaken them, and would also present their author in a very unfavourable light. If it were a question between Mr. Machaffie and the officials of the bank, backed in their statement by Mr. Lash, no one would expect otherwise than that Mr. Machaffie's statements would be ignored. In response to the minister's call for a report upon the matters, there was submitted to him under date of 29th October, 1918, a lengthy statement signed by the president of the bank, in the form of a report unanimously adopted by the board, instructing the president to forward a copy to Mr. Lash, and with a direction to have the same forwarded to the minister. (ex-96-p-182). The report made reference to what was done in 1916, and the changes made since that time in the management of the bank, discussed the accounts which had given so much trouble, and reported favourably on the British Columbia account, and the New Orleans account; it denied that any dividends had been paid out of capital, and asserted that the profits of the bank actually earned had been sufficient to warrant the payment of the dividends; it set out the net profits for the years 1917 and 1918, and controverted Mr. Machaffie's statements about the shipbuilding enterprise, on which he had commented unfavourably; it assured the minister that the position of the bank had been steadily growing stronger, giving figures of its growth comprising the years 1917 and 1918, and at great length purported to set out the improved position of the institution. It was a report of such a character as to set at rest the mind of anyone who believed it, and apparently was written with that end in view. Upon its receipt the minister apparently was convinced that there was no necessity for ordering any further investigation. It was so drawn as to raise an issue between Mr. Machaffie and the president and directors of the bank, thereby clouding the real question.

*Answer to question 3:—*

The action taken by the Minister of Finance upon the representations made to him consisted in:—

(a) Calling for special returns from the bank under section 113 of the Bank Act.

(b) Calling for a report from the bank's auditor under section 56A.

(c) Seeking and obtaining information from Mr. Lash, the bank's counsel, and from its president and other directors, including therein detailed statements of accounts regarding the dealings of the bank with the following individuals and firms, viz: A. C. Frost & Co.; Pellatt & Pellatt; the Prudential Trust, New Orleans account.

(d) Forbidding further capitalization of interest on doubtful accounts.

(e) Securing a promise from Mr. Lash and the president that a thorough investigation would be made of the affairs of the bank under the direction of Mr. Haney and Mr. Machaffie.

I think it is right to say also that the minister's intervention in 1916 resulted in a change of management of the bank, Mr. Haney becoming vice-president, with the understanding that he should discharge the duties of president, and have full powers with respect to the organization of the staff; this change appears to have met with the approval of all concerned, although no improvement seems to have actually resulted from it.

*Question number 4 reads as follows:—*

"What effect would an audit under section 56A of the Bank Act, if made in 1915, 1916 and 1918, have had upon the conduct of the affairs of the said bank and upon the position of the present depositors."

Confining myself to the years 1916 and 1918, as no evidence whatever has been directed towards the year 1915, it is clear that an effective audit would have revealed a condition of affairs demanding the application of immediate and drastic remedies. It will be noticed that both in his evidence and in his argument Sir Thomas White directs attention to the fact that he called for an audit of certain accounts under the above mentioned section of the Act, and the criticism of the other counsel was, as outlined in the answer to question 2, that he directed the auditor of the Home Bank to do the work, instead of selecting an outside auditor or one named by the Bankers' Association, as he had first in mind. It is apparent that he received no such audit, and at page 346 of the evidence he thus describes it, in answer to questions put by Mr. McLaughlin:—

"Q. So while you directed the audit under section 56A you never received one?—A. I received an audit of the Frost account.

"Q. Just the statement from the ledger?—A. Well, that is what appears in these exhibits. It is not in my mind that I received anything else, but I may have. But I do not say I did.

"Q. There is nothing else in the exhibits. That of course was not the kind of independent audit that these directors wanted?—A. Not up to a certain stage, up to a certain stage they wanted an independent audit.

"Q. And this was the auditor who had certified to the various reports of the bank from year to year?—A. Yes.



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"Q. So to ask him for a further statement would be to merely ask him to send in his previous report or else show he was wrong?—A. I do not think so, the previous report dealt with general accounts. I asked him for a report in all fitting detail.

"Q. Anyway, the report was never received, except this?—A. Apparently not."

The evidence of the minister is to the effect that had he known the true condition of affairs in 1916 or 1918 he would have taken steps to meet the situation. The steps indicated by him were, that by calling in the aid of the Bankers' Association, arrangements could have been made to have the bank taken over by another institution. Even if, for reasons that might be imagined, this could not have been consummated, I think a revelation to the stockholders of the existing condition of affairs could have had no other result than a complete change of management. Anyone whose funds were at stake must instantly have realized the necessity of forcing the liquidation of the large accounts, whose inactivity was gradually drying up the resources of the bank. It is impossible to state with certainty what would have occurred in any line of business, had certain events intervened, and what renders an estimate in that regard most questionable, is the fact that one's mind and opinions are liable to be influenced and shaped, even unconsciously, by events subsequent to the period which is under consideration; consequently the value of an answer to a question of this nature must for that reason be impaired; but notwithstanding all this, one can always rely in judgment upon the continued operation of natural impulses for safety which prevail in financial dealing. It is a fact that disclosure of the true financial condition of the bank in 1916 and still more in 1918, would have shown that, under the management of the then board of directors, the bank had been placed in most extreme jeopardy; that they, and others associated closely with them in its affairs, had access to the resources of the institution to a degree wholly incompatible with the bank's financial standing; that the capital had been most seriously impaired, if not altogether lost, and fictitious earnings were being put into profit and loss account as a justification for declaring dividends which had not been earned, and in view of these facts I think it can safely be said that the effect of an audit of the bank's affairs in 1916 or in the year 1918, would have been to bring to the attention of the shareholders a condition of affairs which would have moved them instantly to insist upon a change of management, and to have wholly reversed the policy theretofore pursued. It is inconceivable, I think, that the permission of the Department of Finance, or of the shareholders of the bank, could have been procured to countenance the continuation of the then conduct of the bank's affairs, as must have been disclosed by a thorough and effective audit. It might have come to pass that the minister, after such audit, would have been able to secure the amalgamation of the Home Bank with another bank. If that desirable course could not have been effected, the bank would have come under honest management, and in my view, been compelled to liquidate its affairs; for after disclosure of its true condition, as must have followed an effective audit, there would inevitably have been an instant demand by the depositors for their money, and a withdrawal of public support generally, which, in view of the condition of the large accounts, and the impossibility of converting them into liquid assets, must, I think, have resulted in liquidation.

I now turn to the second branch of this question, which asks:—

"What effect such audit would have had upon the position of the present depositors."



In answer to this I may say I am taking it for granted that such audit would have been thorough and effective, and as observed above, I think the result would have been either to close the bank altogether, or put it upon a firm foundation as an integral part of another banking institution, since, for the reasons above noted, I do not think it could have had further independent existence. In the light of this supposition, it is obvious that as far as the year 1916 is concerned, such audit would have saved the situation for the then depositors, for although the capital and reserve had largely, if not wholly, disappeared, yet despite the loss thus made, there was still left a fairly balanced account, according to the testimony given by Mr. Edwards.

There is no evidence as to what number of those who are referred to in the question as "present depositors," occupied that position in 1916 and 1918; but I think it is clear, as regards those who were depositors in the first named year, that if either of the foregoing remedies had been applied, their accounts would have been met in full from the then resources of the bank, backed by the double liability of the shareholders, and it is this last asset which might have saved the situation for the depositors in the year 1918.

It is my duty to specifically inquire into the financial condition of the bank during the years 1916 and 1918 under the next succeeding question, and the result of that inquiry is closely bound up in the answer to the present one; but my finding on this branch of question 4 is that an effective audit in 1916 would have resulted in action which would have saved the depositors from loss. While, because of lack of evidence on which to base a conclusion, it is impossible to speak with as much certainty as regards the year 1918, the probability is that the same result would have followed had the audit been made and action taken in that year.

*Answer to question 4:—*

For the reasons above set out, I think an effective audit under section 56A of the Bank Act made in 1916 or 1918, would have resulted, as far as concerns the conduct of the bank's affairs, in either:—

- (a) Liquidation immediately following such audit, or,
- (b) Amalgamation with another bank.

And the effect of such audit upon the position of the present depositors:—

If made in 1916 the present depositors would have suffered no loss.

If made in 1918, I do not think any loss would have fallen upon them.

*Question number 5 reads as follows:—*

"What was the financial condition of the said Home Bank of Canada in the years 1915, 1916 and 1918 respectively, and what steps, if any, could have been taken by the Government to save the situation?"

The returns to the Government for 1916 show (ex. 170, p. 495) that the paid-up capital of the bank was \$1,946,639; the reserve, \$300,000; the deposits, \$10,028,224; the total liabilities were \$18,722,963; and the total assets \$21,030,253. Upon this showing a dividend of five per cent was declared and paid. The foregoing figures indicate an excess of assets over liabilities of \$2,307,390, which represents what the officials of the bank reported to the Government in that year as to the financial condition of the Home Bank of Canada. The expert accountants, Mr. Clarkson and Mr. Edwards, who testified before the commission, were undoubtedly best equipped to find the answer to this question. Whatever lack of unanimity there is in the opinions expressed

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by these two gentlemen, arises from a difference as to what would have been their respective opinions if confronted by the physical assets of the bank in 1916 and asked at that time to pronounce upon their value. If the answer to the question—what was the financial condition of the Home Bank in 1916—depended wholly upon ascertaining what value should be placed upon the bank's assets in the year indicated, I think that is a most difficult thing to determine. Confining attention for a moment to the large accounts which were challenged, it seems to me that the one concerning which an auditor at that time would have spoken with most certainty, was the Prudential Trust account, spoken of as the New Orleans account. The bonds, which were security for the loan, had become worthless by the underlying property having been disposed of under a prior claim, and it looked as if a total loss would be made in that particular, and yet, to illustrate the difficulty of relying upon opinions thus formed, it is only necessary to say that at present, Mr. Clarkson holds out strong hope of this account being paid in full, that result having followed from further expenditure for the purpose of protecting the claim. An estimate of the value of the security underlying the loan to A. C. Frost & Co. in 1916 must have been influenced by the reports on these timber limits, then on file in the offices of the bank, as well as from reports of two of the directors who had personally visited the locality and pronounced favourably upon it. A like remark may be made as to the Pellatt & Pellatt loan, and while both these latter have turned out much more disastrously than could have been anticipated, they nevertheless, in the year 1916, could not have given to an auditor anything like the concern which now prevails regarding them. Again, the wisdom of adding interest to an existing loan and carrying such interest into profits year by year, as far as the safety of the investment is concerned, must depend upon the value of the underlying security, and that remark I think has a bearing upon what conclusion an auditor in the year 1916 would have drawn as to the financial condition of the bank from the standpoint of its physical assets represented so largely by the existing securities for these large loans. I can draw only lame conclusions in view of the reports which would be laid before the auditor in 1916. Clearly an auditor could not have taken it upon himself to have personally valued the timber lands, nor indeed to have gone over all the properties and securities represented by the Pellatt loans or the New Orleans Railway loan, but looking at such information as was available for him in the year 1916 with reference to the securities underlying these large loans, and speaking from the standpoint of that year, it is difficult to say what value should have been placed upon these assets in 1916, and consequently what its financial condition was viewed from that standpoint. If estimated in the light of knowledge since acquired, the answer is easy. But I think there were easier tests to apply, which were open to his observation, and would have challenged the attention of any competent auditor. One of these lies in the power of the bank to earn and pay dividends from year to year. While from the standpoint of abstract security as manifested by the reports available, I think it could hardly be said at that time, that the capitalization of interest on these accounts would necessarily be productive of danger, yet considering that such course resulted in depriving the bank of its liquid assets available for dividends as well as for daily use, I think these accounts were calculated to cause the liveliest apprehension. It is just as necessary that a bank be in a position to marshal its assets for the purpose of a dividend as that its solvency be manifest from a comparison of its general liabilities and assets, and having regard to the capital and resources of this bank, the capitalization of interest on these large accounts from year to year must have been looked upon as a most dangerous and alarming procedure. And I think it would be equally correct to say that the existence of these accounts them-



selves, which rendered it necessary to capitalize the interest, was a most disturbing circumstance apart from the question of securities held for them. The effect of a bank passing a dividend is too well known to require comment. Conditions may be imagined in which directors would wisely determine it to be better to pay the ordinary dividend, even though the profits were unliquid, as in the case of this bank; but, before another year should elapse, unquestionably steps should be taken to force the liquidation of accounts rendering that course necessary, otherwise the result would be as in the present instance.

Also, there is always an existing danger that for some reason or other a run upon a bank's funds may take place for which a volume of ready money is necessary to tide over the situation. Whether any cause exists justifying such action is beside the point. It does occur from time to time that depositors become alarmed, frequently for no valid reason, and in consequence of such alarm demand their money. No bank should lose sight of the possibility of such an incident taking place, and be prepared to meet it. From that point of view it is unnecessary to argue that these accounts then carried by the Home Bank were altogether incompatible with safety, and I think that any competent auditor would have felt compelled to so report. Here again it will be perceived that this has no direct bearing upon the sufficiency of the security for the principal and interest of the loan, but the existence of these large loans was, in my opinion, wholly contrary to sound banking principles, for the two reasons briefly outlined above, and therefore that they created a very dangerous condition for the bank. Now for these reasons, rather than from the comparison of assets and liabilities, I think a competent auditor, viewing the situation in 1916, would have felt compelled to report an extremely dangerous situation in connection with the bank, for it was apparent that dividends were being paid out of interest which had been capitalized; in other words, from earnings which were not available, and he would have been confronted by the ominous fact that the amount of interest so capitalized and taken into profits then amounted to much more than the whole capital and reserve of the bank. He would have seen that during the year 1915, although a profit of \$163,900 was shown, the actual state of affairs was that there had been taken into profits uncollected interest on four accounts to an amount exceeding \$275,000; (p. 270) that in the year 1916, in which a profit of \$133,406 was shown, uncollected interest to the amount of \$210,000 (p. 271) had been put to profit account. Now the necessity of taking these uncollected annual amounts into profit and loss in order to declare a dividend, would have given to an auditor most serious concern, apart altogether from the question whether the security available for each individual account could have stood the strain of the additional interest as well as the principal which it professed to guarantee. No doubt an auditor would have been very much embarrassed by finding these large accounts in the condition in which they were, and must have reported them with such comments as in his judgment were necessary bearing upon the question of security, but apart from their safety from that standpoint, the fact that by capitalizing the interest of these accounts they were absorbing more money than the bank was making year by year, would convince him that a very grave situation existed. I have illustrated the situation with reference to 1916 by a reference to the accounts above named, but other accounts were in a similar condition, and the combined effect of all these matters were danger signals of the most alarming nature.

For the reasons suggested above, I cannot satisfactorily work out an answer to this question from a comparison of assets and liabilities. I think it must have been as a result of looking at the matter in this light, on the part of the late Mr. Z. A. Lash, K.C., that as early as February, 1916, he wrote to Mr.



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Fisher, K.C., of Winnipeg (ex. 132, p. 292) the letter previously set out, in part, in my answer to question three, wherein he expressed doubt as to the possibility of the bank continuing in business, because, as he therein said:—

*“Z. A. Lash to James Fisher.*

*“The amount locked up indefinitely in four large accounts, is probably three times the paid-up capital and more than half the total deposits.”*

And he also alluded to the danger of even a slight run upon the bank.

Having regard to the condition of the bank in the years in question, from a comparison of the assets and liabilities, Mr. Edwards has testified as a result of his investigations that the assets of the bank in the year 1916 should have been reduced by the sum of three millions of dollars thereby leaving the liabilities and assets about even, thus assuring the depositors of the safety of their money, and that the entire capital and rest had disappeared (p. 515). In arriving at these figures Mr. Edwards put a valuation upon the assets, as it would be necessary for him to do, and while that is easily done at present, yet from the standpoint of the information available in 1916, I cannot say that it would have appeared so clearly to me at that time.

Mr. Clarkson, one of the liquidators, spoke very guardedly as to the exact position of the bank in 1916, but remarked (p. 283):—

*“He must have felt that the bank was not earning profits sufficient to continue payment of dividends without capitalizing interest on accounts which were in jeopardy or at least in deep water; and that being the case, the situation must have appealed to him as a serious situation.”*

And further says (p. 287):—

*“There were a great many danger signs and the revenue situation was one of them.”*

Down to May, 1916, the interest capitalized on the A. C. Frost & Co. account was estimated by Mr. Edwards at \$535,000 (p. 540), and it may not be out of place to say that until the date of failure interest had been capitalized to the extent of over two millions of dollars.

The financial condition of the bank in the year 1918 when the attention of the minister was drawn to it a second time, had become more serious, although returns to the government for that year gave no cause for apprehension. The returns showed (ex. 170, p. 495) paid-up capital to have slightly increased, it then being \$1,947,635. Reserve stood at the same figure, viz., \$300,000. The deposits showed almost five million dollars increase, being \$14,988,422. The total liabilities were \$25,842,635, and the assets \$28,270,766. From all of which it appeared, that if the assets were realizable, the bank was, from that standpoint, on safe footing. But an examination of the books would have shown—according to Mr. Edwards' testimony—that the accumulated and unpaid interest for the years 1916, 1917 and 1918 amounted to \$676,000 (p. 509), which illustrates in a startling way how dangerous these frozen accounts were. Such examination would also have shown that in 1917 a profit of \$142,900 was shown in the bank's statement, but that in that year interest to the extent of \$205,000 was capitalized and never collected (p. 271); that the earnings of the bank for 1918 were \$167,157 which was the most satisfactory showing for a long while, but as a matter of fact the annual statement represented the bank to have made \$228,963 in that year (p. 271).

After the receipt of Mr. Machaffie's letter the minister reverted to his determination to refer the matter to the Canadian Bankers' Association, but for the reasons which have been duly detailed in answer to question 3, he was persuaded not to do so.

As to what further loss in capital had taken place between 1916 and 1918, it is difficult to form a conclusion. That some such impairment had taken place within that period is certain, although no details of amount are furnished in the evidence. Two yearly dividends amounting to over \$190,000 had in the meantime been paid.

The concluding part of this question asks:—

“What steps, if any, could have been taken by the Government to save the situation.”

In considering what the Government might have been able to do to that end in the years above mentioned, attention is directed to the probability of assistance from other financial institutions. By its continual supervision of banking matters and from the fact that there must be a renewal of the charter of each bank every ten years, it is obvious that the Department of Finance is in a position to exercise much influence with the Bankers' Association. While the Government has no power to compel one bank to take over another, and the Bankers' Association has no funds with which to assist a weak bank, nevertheless, the stability of banking institutions being supreme law in financial circles, one can see the force of the opinion expressed by Sir Thomas White, that intervention on his part would have resulted in the Home Bank being taken over by another bank or by other banks. Speaking strictly, such action could not be forced upon the Bankers' Association, or upon any bank, and therefore, if one is to consider what the Government could have done to save the Home Bank, apart from co-operation by the Bankers' Association or by other banks, the answer to such restricted enquiry is, I think, that the Government, after ascertaining the facts, could have closed the bank and forced liquidation at a time when, in my opinion, no loss would have fallen upon the depositors. But there still remained, however, the good services of other financial institutions responding to the express desire of the Department of Finance, especially when considering the imperative necessity for financial stability at that time. Whether, in view of the situation which would have been then disclosed by a proper audit and inspection, any other financial institution would have burdened itself with the Home Bank's liabilities or not, is a matter to which I cannot give absolute and definite answer. The evidence of Sir Thomas White is clear and distinct that he would not have allowed the Home Bank to fail at that time, but he would have had it taken over by some other institution, clearly explaining, however, that such action could not be made imperative upon any other bank. He was referring to the condition of affairs from a national standpoint, and to the overwhelming necessity at that time for keeping up a strong financial front in face of the world's demands, and replying upon the unquestioned patriotism of those who directed the issues of financial matters within Canada. Sir Henry Drayton expressed the same opinion. Keeping in mind these two spheres of operation open to the Government, it is clear I think, that all that it could have done to save the situation for the depositors would have been either to have closed the bank, forcing a liquidation of its assets to meet its liabilities as far as then possible, or have brought such influence to bear upon the Bankers' Association, or some other bank, as might have resulted in its amalgamation with another financial institution.



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*Answer to question 5:—*

I. The financial condition of the Home Bank was:—

*In 1916:*

(a) More than double its total paid up capital and reserve was locked up in four accounts, the securities for which were not realizable.

(b) No interest was being paid on three of these large accounts.

(c) No money was available for dividends except money belonging to the depositors, and the dividends paid from year to year were paid out of the depositors' money.

(d) A demand by the depositors for even a small percentage of their money could not have been met.

(e) The total paid up capital and reserve of the bank had been lost.

(f) A loss of assets calculated by Mr. George Edwards at over \$3,000,000, had been sustained, leaving the assets and liabilities about even.

*In 1918*

(a) There had been no reduction in the amounts due to the bank from their heaviest debtors, but on the contrary further capitalization of interest had taken place.

(b) All the weaknesses which existed in 1916 were accentuated.

(c) The dividends paid in the meantime, amounting to over \$190,000, had been paid out of money belonging to depositors.

(d) A further loss of assets had been sustained but the auditors were unable to state with any certainty as to the amount of such loss.

II. The only steps that the Government could have taken to save the situation would have been to make thorough investigation into the bank's affairs, which would have resulted:

(1) In forcing the liquidation of the bank, or,

(2) Bringing about its amalgamation with another bank.

It will be noticed that by Order in Council number 412, dated 17th March, 1924, the Committee of the Privy Council advised that the powers of the Commissioner under Order in Council number 306:—

“Be not limited to the specific years 1915, 1916 and 1918 referred to in the petition of the depositors, but should extend to an investigation of the affairs of the said bank during the whole interval between the issue of the bank's charter and the failure of the said bank, including any representations made to the Government of the day, as to its condition, any action taken by way of the Ministers of Finance upon such representations as may have been made, and the effect on the position of the depositors of any audit under section 56a of the Bank Act if made at any time in consequence of such representations.”

I beg to report that there is no evidence that representations of any kind were made to the Government concerning the Home Bank of Canada subsequent to the year 1918.



After his retirement from office, correspondence took place between Sir Thomas White and his successor, Sir Henry Drayton, bearing upon the condition of the Home Bank, as set out in the evidence given before me by Sir Henry Drayton, but nothing requiring consideration here arises therefrom, as in any way bearing upon the substance of the depositors' petition.

An incidental reference to the Home Bank was made by Sir Henry Drayton to his successor in office, the Right Honourable W. S. Fielding, when the latter succeeded to the position of Finance Minister, but nothing was said as to the existence of the memoranda or letters above referred to.

No representations of any kind appear to have been made to either Sir Henry Drayton or to the Right Honourable W. S. Fielding concerning the condition of the Home Bank, and although the present Minister of Finance expressed himself as ready to give evidence before the commission, if required, it did not seem to me that anything had taken place which made such a step necessary. There was nothing to indicate that his attention had ever been drawn to the existence of the various memoranda or to the correspondence above dealt with.

Having reference therefore to the scope of the enquiry, as enlarged by Order in Council number 412, I beg to report that there were no representations of any kind made to the Government of the day as to the financial condition of the Home Bank of Canada after the year 1918, and consequently no action in that respect was taken by any of the Ministers of Finance.

All of which is respectfully submitted.

OTTAWA, the 10th day of June, 1924.

HARRISON A. McKEOWN,

*Commissioner*

## REPORT ON AGRICULTURAL CREDIT

BY H. M. TORY

*Ottawa, April 4, 1924*

The Honourable JAMES A. ROBB,  
Acting Minister of Finance,  
Ottawa, Ont.

SIR,—I have the honour of presenting, herewith, the report on Agricultural Credit, which I was asked to prepare by the Right Honourable W. S. Fielding for the Department of Finance.

Your obedient servant,

H. M. TORY,  
*President of the University of Alberta,  
Administrative Chairman of the Honorary  
Advisory Council for Scientific and Industrial  
Research.*

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## INTRODUCTION

On the authority of a letter from the Minister of Finance, dated August 23, 1923, I undertook to make an enquiry into the subject of Rural Credits. The above mentioned letter intimated that the enquiry should be along the lines suggested in the Report of the Special Committee appointed to enquire into Agricultural Conditions, dated January 19, 1923. The report is as follows:—

“As to the necessity of credit on more advantageous terms to the farmers of this country, there can be little room for difference of opinion. Well selected and secured farm loans should be among the safest and most attractive of investments, while the security offered through the pledging of non-perishable and readily marketable farm products is certainly comparable to that offered by merchants and manufacturers. Notwithstanding these facts, the agriculturist of Canada, in certain parts at least, pays considerably more for long term credits secured by his property than many of his competitors in other lands as well as more than is paid by many of his fellow citizens in other walks of life for similar accommodation.

“Your committee are of the opinion that after consideration along the lines hereinafter respectfully suggested, the Government should promote the obtaining by agriculturists of this country of long term credits, as well as intermediate credits, and that action should be taken, and, if necessary, legislation enacted to this end at the earliest possible date.

“The attention of your committee has been forcibly brought to the fact that the operations of the Federal Farm Loan Board system in the United States offer, through the National Farm Loan Association, the Federal Land Banks and the Joint Stock Land Banks, facilities for long term credits to the farmers of that country which when prudently availed of, are of immense advantage to them. Likewise, it would appear that the farmers of certain European countries, as well as of other parts of the commonwealth of British nations, enjoy credit facilities of an advantageous nature.

“The Federal Farm Loan Board system, operating through the Federal Intermediate Credit Banks and the Agricultural Credit Corporations in the United States, is designed to supply to a very large extent, to agriculturists, intermediate credits, that is to say, credits running from nine months to three years.

“It will be remembered that there are at present operating in Canada certain provincial systems. As to the success of some of these, serious differences of opinions have been expressed. It would appear that some are suffering from inadequate loaning funds.

“To what extent the Federal Government should inaugurate a federal system of long term and intermediate term loans to farmers; how such system, if inaugurated should be related to the different provincial systems; what features of, or other systems of, farm credits could, with advantage, be adopted, are all matters requiring further searching investigation.

“Your committee have heard a number of witnesses and have devoted a considerable amount of study to the question. They feel, however, that the system is of such paramount importance that further investigation and study should take place before definite legislation is brought down.

All authorities apparently agree that there is a barren area of credit unsupplied by either the banks on the one hand or the loan companies on the other.

"We, therefore, recommend the investigation by the Government into the question of long term and intermediate term rural credits; the operation of existing schemes in Canada, the United States and elsewhere; the examination of the question as to whether and to what extent systems of agricultural credits should be fitted into and related to our present banking system; as well as the operations of mortgage and loan companies; and that to this end, and in such manner as may appear best to the Government, the views of agriculturists, bankers, representatives of loan companies, officers of the present Canadian provincial loan system, as well as of the officers of the Federal Farm Loan Systems in the United States, should be obtained, in order that adequate and well-founded action for the relief of the present situation may be taken.

"In this connection also, the attention of your committee was drawn to the question as to whether it would be advisable and in accordance with sound economic and banking principles to extend to those provinces which desired to obtain money for their rural credit systems, facilities for obtaining of credit such as are afforded to the chartered banks under the provisions of the Finance Act of 1914, under the provisions of which Dominion notes are issued to the banks against the deposit of certain approved securities with the Treasury Board."

Taking, therefore, the report of the Special Committee as a basis for the enquiry, the procedure in obtaining information was as follows:—

First, all the documents, legal enactments and reports of the Dominion Government and the Provincial Governments, not already in my possession, were obtained and studied. Following this the central provinces, Alberta, Saskatchewan, Manitoba and Ontario were visited, and the schemes in actual operation were gone into with the officials responsible for their administration. Wherever possible ministers of Provincial Governments were consulted, especially those having already had experience in the creation or the working of legislative enactments. The province of British Columbia and the Maritime Provinces have not yet been visited as time did not permit, but the laws in operation and the reports of the provinces have been studied.

In order to get first-hand information of the condition of affairs in the United States of America, some time was spent in the offices of the Farm Loan Board in Washington, under whose supervision both the Federal Land Banks and the Intermediate Credit Banks are functioning. Through the offices of this Board the fullest information was made available to me both by means of documentary evidence and personal interviews with those responsible for the administration of the affairs of these great organizations.

Further, letters of introduction were given me to the presidents of the Federal Land Banks in all the centres of the country where they now operate. I was able by visiting some of these centres to get information on the actual working of their plans in the most intimate way.

In selecting points for detailed study, banks operating in parts of the country bordering on Canada, the problems of which would be similar to our own, were selected. These were the Land Bank of Springfield, Mass., which operates in the states of Maine, New Hampshire, Vermont, Massachusetts and northern New York and the Bank at St. Paul, the operation of which covers northern Michigan, Wisconsin, Minnesota, North Dakota and Montana. The Bank at Baltimore was also visited and studied intimately as presenting somewhat contrasting conditions to the others.



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At this point I wish to express my grateful appreciation for the generous treatment accorded me by all the officials of the organizations in the United States and especially to Commissioner Cooper of the Farm Loan Board at Washington, through whose kindness the doors of the organizations all over the country were opened to me.

A good deal of documentary evidence was collected first hand at the centres visited. Many of the foreign documents were made available through the kindness of Mr. Doherty, of the International Institute of Agriculture, Ottawa, while valuable assistance in the same way was given by Mr. Lynch, of the Department of the Interior.

The problems involved in the enquiry were also discussed with bank managers in the United States and Canada, as well as with managers of loan companies and insurance companies in both Eastern and Western Canada.

In addition to the information thus obtained, I drew upon the evidence which I collected when in Europe in 1913 with the American Commission, and the reports which grew out of the work of the commission. As far as possible, documents have been obtained showing the recent trend of rural credit organization in Europe and in Great Britain. Documents have also been obtained from New Zealand, Australia, South Africa and South American countries where systems of rural credits are already in existence. So far as the time at my disposal would permit, I have tried to cover the field of the practical application of rural credit principles, as distinguished from mere theorizing about the matter.

One further word by way of explanation. The usual method of holding public sessions of enquiry has not been followed. The facts collected were from responsible people whose statements were substantiated by documents, legislative enactments and official reports. Many expressions of opinion were received by letter and from individuals personally. These opinions, however extreme, have been duly considered and carefully weighed.

In what follows a precise presentation of the facts gathered is attempted. Technical terms and statistical information have been avoided, unless considered absolutely necessary for a proper understanding of the issues involved. In the interest of clearness the report is divided into six sections as follows:—

Section I—General Considerations.

Section II—Rural Credit in Europe.

Section III—Rural Credit in the British Empire, outside Canada—

- (a) Great Britain.
- (b) Australia.
- (c) South Africa.
- (d) New Zealand.

Section IV—Rural Credit in the United States.

Section V—Rural Credit in Canada.

Section VI—Consideration of Methods in Relation to Canadian Conditions.

I have tried to make every section of the report complete in itself, so that, after reading section 1, those interested in the study of the special problems of the individual country may do so without reference to other parts.

It is hardly necessary to point out the movement for Rural Credits on this continent is not an incident in the history of an individual country, but is part of a movement covering the whole civilized world, and would appear to be a normal development growing out of the conditions of modern agriculture.



## SECTION I

## GENERAL CONSIDERATIONS

The terms Rural Credit, Short Term Credit, Long Term Credit, and Intermediate Credit, require definition as they are used ambiguously in much of the current literature in which the terms occur.

The term "*Rural Credit*" is used in both Europe and America in a general sense to include all forms of credit which have to do with the production and distribution of farm crops. It will be used always with that meaning in this report.

The term "*Short Term Credit*" has a different meaning in Europe from that which it has in the United States. In Europe it means all forms of credit in relation to agriculture other than mortgage credit and in which the security is personal or easily negotiable collateral. In the United States the term is used generally in reference to ordinary banking transactions of from three to six months. In Canada it is used in the same sense, except in legal documents referring to Rural Credits where its meaning is the European one. When discussing European methods, therefore, it will be necessary to use the word with the European meaning as comprehensive of the two American terms. "*Short Term Credit*" and "*Intermediate Credit*." In discussing Canadian documents it will be necessary, in order to avoid confusion, to define the term when used.

The term "*Long Term Credit*" is everywhere used to mean mortgage credit and in relation to agriculture, farm mortgage credit for terms of five years or over. The only exception is in France where a special meaning is given by the use of the terms "*Long Term Collective Credit*" and "*Long Term Personal Credit*." The context, however, will be found to give sufficient explanation in these cases.

The term "*Intermediate Credit*" is always used to mean credit for a period longer than the ordinary banking transaction of from three to six months, and yet shorter than the ordinary mortgage term. The period may vary from six months to five years. The security is non-perishable farm commodities or stock security but is not based on land mortgage. As worked out in the United States where the term is now official, it is a banking operation but done through a bank specially regulated to cover the longer term stated above. In this sense only will the word be used.

The problem which the Rural Credit organizations seek to solve is how to safeguard and promote the economic interest of those engaged in agricultural pursuits, especially by providing them with such facilities for obtaining credit that they may be able to acquire the means of production and to dispose of their produce on such favourable terms as to make farming a profitable enterprise.

One great reason why all countries have found it necessary to solve in some measure this problem is that agriculture is everywhere regarded as the fundamental industry, which if not prosperous reflects its lack of prosperity on every other national activity. This is especially true of all those countries which seek to become even approximately self-supporting.

In order to make possible the instruments of production to those whose only capital is the land the Long Term or Mortgage Credit systems arose. To make possible the seasonal operations by means of which production and disposal could be profitably undertaken the Short Term and Intermediate Credit systems came into being.

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The aims of the Long Term or Mortgage Credit systems, so far as they relate to agriculture, are:—

1. To free the landowner from the necessity of borrowing directly from the individual creditor.
2. To regulate the payment of interest and principal so as to free the borrower from the danger and anxiety associated with demands for repayment under circumstances which made payment impossible.
3. To get rid of usurious rates of interest, putting agriculture in this regard on the same basis as other business equally secure.

From the effort to meet these conditions arose—

1. Land mortgage bonds.
2. Amortization, the repayment of the principal with the interest at a fixed rate over a series of years.
3. Co-operative land mortgage credit, the combining of the security of the many to secure a reduction in the rate of interest.

The reasons advanced in favour of the land mortgage bond are briefly as follows:—

1. It makes possible the long term mortgage, otherwise impossible, as the individual money lender would not as a rule be willing to take a mortgage for a term of fifteen or twenty or thirty years. This can be done by the creation of a corporate body, the Land Bank, whose existence does not terminate with the death of the individual.

2. It places between the lender and the borrower an intermediary whose business it is to safeguard the loan and whose security is unquestioned.

3. It makes a more flexible arrangement for the lender, as his bonds are always available for sale in case of need or as collateral security of a high order, if desired.

4. It makes possible the use of the amortization principle, that is the repayment of the principal of the debt by means of small annual instalments along with the interest, the payment of principal and interest alike coming out of the annual proceeds of the land.

5. It recognizes also the fact that the mortgage is to be redeemed by production from the land, thus establishing the security on a rational basis. The mortgage is not strictly a real estate mortgage otherwise.

6. It allows that combination of security which makes low rates of interest possible, if correct principles are followed. In so doing it establishes a reasonable limit for a mortgage and thus protects both borrower and lender.

7. If the fixed capital is raised in this way, free from personal or other kind of guarantee, it leaves the total remaining assets of the farmer free as security for his seasonal requirements for immediate production. This can be used with the ordinary bank or through the special banks at the will of the borrower.

The aims of the Short Term Credit systems as they exist in Europe and the Intermediate Credit system as it exists in the United States are:

1. To give to the agriculturist a credit system suited to the seasonal requirements of his occupation.

2. To secure for him rates of interest for this requirement consistent with the security of his business.

With regard to the first of these aims, it is claimed everywhere by those who advocate such credit systems that the ordinary banks are not organized to meet in a normal way the claims of agriculture. It is not necessary in this report to go over the arguments advanced, as they are quite well known. Briefly it amounts to this.

The farmer's business does not usually give him a quick return. His period of investment is at least nine months or a year as he has to await the processes of nature to give him his dividends. He is subject to losses by accident, disease and fluctuations in prices, causes over which he has no control and which make special financial arrangements necessary often covering a period considerably longer than that required to produce his yearly crop. Short Term Credit of three months even with the right of renewal is to him both inconvenient and embarrassing, as although renewal may be promised the difficulty in obtaining it is much greater if crop difficulties in the meantime have arisen. Further, the ordinary commercial banks, organized especially to suit commercial and industrial conditions, to a large extent fail to appreciate the position of the farmer, who because of his inability to meet specific banking practices finds himself, particularly if he is a small farmer, regarded as an undesirable customer, not because of any fault of his own, but because he is unable to marshal his assets in a manner to satisfy the bank. Hence the claim that a special financial organization with a different purpose from that of the ordinary bank is required.

With regard to the second aim mentioned above, the difficulty to be overcome arises naturally out of the conditions just stated. If the ordinary commercial bank is incapable of meeting legitimately the farmer's needs, then he must either do without working capital or resort to some other means of obtaining it. To do without renders him helpless, unless he has already acquired a surplus of his own. The only other sources open to him are the private money lender or the local merchant through whom he may buy his supplies. In either case, while the credit may be obtained for the length of time required, the cost is very great, often too great in proportion to his productive capacity. The private money lender is often more hard-hearted than the banker, while the local dealer's credit is generally the most expensive of all. The latter usually considers it necessary to protect himself against loss by increasing the price of his goods, if sold on credit or by charging a higher rate of interest, if he advances money.

The Short Term Credit Banks of Europe, the Intermediate Credit Banks of the United States and a great variety of state supported financial organizations in other civilized countries have sought to overcome the difficulties stated above by organizing the security of the farmer on a co-operative or semi-co-operative basis in such a way as to make possible credit at reasonable rates of interest and for a length of time suited to his needs.

The foregoing is not to be interpreted as an argument but as an effort to state in the briefest possible way the point of view and purpose of the Rural Credit movement. The extent to which these organizations have succeeded will be apparent later on in this report.



## SECTION II

**RURAL CREDIT IN EUROPE**

One of the outstanding facts about modern Europe is the number and variety of its financial institutions. Private, public and co-operative organizations have grown up everywhere, often with a view to meet special needs or to solve special financial problems. In every country the ordinary joint stock bank is, of course, to be found. Side by side with these are to be found savings banks working under definite restriction; rural banks specially suited to do business with the rural communities; public utility banks, that is banks doing a non-profit-making business; land mortgage banks whose activities are often confined to land mortgage business or to credit based on land mortgages; general joint stock loan companies; state banks doing business on a profit-making basis in the interest of the State; and finally co-operative banks specially regulated to assist and stimulate co-operative institutions.

Institutions of all of the above mentioned types give consideration to the problems of agriculture and make loans on the basis of farm land security. I shall discuss, however, the agricultural credit institutions only; that is, institutions whose function is to deal with problems of agriculture specifically and whose aim is to give the agriculturist money at rates of interest in relation to the security offered. These institutions give to the farmer the advantage of their knowledge of the value of his security and have resulted in establishing agricultural credit on what is regarded as a rational basis. As a consequence of their operation the small farmer has been taken out of the hands of the usurers, whose rates of interest fifty years ago ranged from ten per cent to fifty per cent, and has been made the cheapest borrower in the country. These institutions have done more than this. They have had a regulating influence on the rate of interest charged by all the other financial institutions doing business with the farmer. (As an illustration, one might take the position of the Land Mortgage Credit Associations or the *Landschaften* in Germany. At the end of 1912, the financial institutions in Germany lending money on mortgages had invested about \$6,500,000,000 in various types of mortgage security. Of this amount over \$2,000,000,000 was in farm mortgages. Of this latter amount the *Landschaften* held \$850,000,000, about 13 per cent of the whole, or about 40 per cent of that invested in farm mortgages. The rate of interest, however, was practically that fixed by the *Landschaften*. The above figures stood practically unchanged in 1920. In this section of the report attention is devoted to a description of those institutions whose special aim is to facilitate agricultural credit, dealing with those of a co-operative or state-aided type, or a combination of both.

Studied with respect to their purpose, these institutions fall under two general heads:—

1. Those giving Long Term or Mortgage Credit.
2. Those giving Short Term or Personal Credit.

**1. Long Term or Mortgage Credit**

Of the institutions giving Long Term or Mortgage Credit the following are the most important and will be described in some detail:—

- (1) The German *Landschaften* or Land Mortgage Credit Associations.
- (2) The German Mortgage Credit Banks.

- (3) The German Savings Banks.
- (4) The Crédit Foncier of France.
- (5) The Co-operative Mortgage Credit Banks of Denmark.
- (6) Institutions in other Countries of Europe.

Similar institutions found in other parts of Europe which have a local application or which are varieties of one or the other of the above will be referred to only when by so doing points of special significance make it necessary.

#### (1) The German Landschaften or Land Mortgage Credit Associations

The German Landschaften or Land Mortgage Credit Associations were called into being at a time so like our own, so far as the difficulties of the agriculturist are concerned, that to quote from the discussion of the time seems like reading current literature on the subject. They had their origin in the period following the Seven Years' War (1755-1763). The land owners who belonged largely to the nobility and who had depending on them the peasant population found themselves in great difficulties. "Agriculture was in a disastrous state; fields lay untilled, dwelling-houses had been destroyed by fire, cattle had perished. The landowners lacked the means to carry out any reconstruction inasmuch as their credit was no longer good and the difficulties in the way of procuring necessary capital was very great. Interest was not paid punctually, debts were not discharged, mortgages were foreclosed and insolvency resulted. The confidence of investors in respect to the landowners was completely shaken. Many mortgage loans were withdrawn. The owners ran the risk of losing a considerable portion of their property." In 1759 a moratorium was declared. This was revived six years later. "But this moratorium merely acted as a palliative as soon as it ceased to be operative, the deficiency of credit made itself felt with landed proprietors in a still more aggravated form. Many estates were sold by auction. In addition, there was the circumstance that the price of cereals, very high during the war, fell sharply after the peace, and besides the export of wool was forbidden on pain of death. This meant that even where it had been possible to keep up farms or to restore them to working order the owners were plunged in difficulties. Credit could only be obtained from private individuals, at a high rate of interest, since there were at the time no institutions that could act as intermediaries between landowners seeking credit and capitalists seeking investment for their money." Such were the circumstances that led to the devising of the first land mortgage scheme in Europe. The landowners of the Prussia of that day were very much in the position of those in Western North America to-day. They had land in abundance but money was scarce and hard to get. Interest charges were abnormal and ruin stared many of them in the face.

Within a very short time after the establishment of the Landschaft, the following statement from a report to the King indicates the change that had taken place. "Thanks to the most benevolent support of your Majesty the credit of the Landschaft is now in an extremely satisfactory state. A remarkable number of families who for want of money and credit were on the brink of ruin and are now in a secure position and thoroughly rehabilitated and will in consequence ever cherish admiration and reverence for your Majesty."

The credit for the scheme belongs to Buhring, a Berlin merchant. He presented his scheme to Frederick the Great in 1765.

The general idea of the scheme was that the land represented the best conceivable security, if there could be created by some sound system a quotable security, that is if the real value of the land could be made a basis for a sound negotiable security it would cause money to flow again freely into the required



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channels. In order to realize his scheme he advised that there be created with the approval of the state authorities a credit association (*landschaft*) by persons in need of credit, which on the basis of mortgages issued in its favour would issue mortgage bonds bearing interest payable to bearer. In this way, the liability of the individual would not be direct to the investor, the bonds being guaranteed by the central authority.

The actual scheme as put into operation in 1770 was a modification of this suggestion. The fundamental idea, that of placing an intermediary, the credit association, between the individual borrower and the investor remained as a foundation stone of the whole structure.

As it stands to-day the *Landschaft* is an association of borrowers for the purpose of securing loans by the issue of bonds secured by mortgages registered collectively against their properties. The bonds are not chargeable against any individual mortgage but against the mortgages taken together. For this borrowing, the landowner is debtor to the association and the association is debtor to the investor. The borrower pays interest to the association, and the association to the investor.

The bondholders are secured in the following manner:—

(a) Mortgages must not be granted beyond two-thirds of the value of the land. The valuation is fixed after careful appraisement by independent officials, the basis being the annual productive capacity of the land as shown by experience.

(b) Bonds must not be issued in excess of the total amount of the mortgages bearing equal interest.

(c) The amount of debt is being constantly reduced by amortization at least until a certain definite portion is paid off.

(d) The organizations themselves are non-profit-seeking, and possess no share capital upon which profits are paid.

(e) The bonds are secured not only by total mortgages of the association, but also by its reserves and the accumulated sinking fund payment of mortgages.

(f) Finally, should all other sources fail the incorporated landowners are responsible in some cases to full value of their property, in others to a given limited liability.

These associations are public corporations and are under state supervision. This supervision is exercised by a Royal Commission and the articles of the Credit Association and the regulations must be sanctioned by the Government, much as our railroad companies are in Canada. They possess certain special privileges. One of the permanent officials must have passed the State examination qualifying him for the office of judge so that they are permitted to distrain without having recourse to ordinary civil procedure. Within the limits mentioned above they are autonomous and manage their affairs on the principle of self-government. The employees have the standing of state officials. It cannot be over-emphasized that these associations are associations of borrowers, not lenders; their aim is to save money for their members, not make money for others. Apart from paying interest on bonds, they have no relation to the investor who buys his bonds on the market in the usual way. The landowner becomes a member of the Credit Association when it acquires a mortgage on his land and ceases to be a member when his mortgage has been paid off, so that no pressure for dividends enters into the conduct of the business.

The special merits of these associations are summarized by Mr. J. R. Cahill in his excellent report for the British Government in the following terms:—

(1) They enable landowners to mobilize, as it were, their landed possessions by the creation of bonds passing into the general system of securities; instead



of only being able, like English landowners to provide a mortgage security of very restricted currency, German landowners have the advantage of being able to convert a mortgage charge into a security realizable at any time in the general market.

(2) Loans granted are not subject to recall.

(3) The rate of interest is as moderate as possible, being closely related to the prevailing market rates for money.

(4) The bonds being irredeemable by the holder, the rate of interest may not be raised.

(5) The right is conceded to reduce the debt by payments made at the mortgagor's convenience.

(6) The necessary extinction of the capital debt is accomplished gradually.

(7) The costs for valuation and other charges are low.

(8) Their administration is at once relatively inexpensive and their office holders highly qualified for their work.

Of these associations there are twenty-three in Germany having a total of outstanding loans in 1920 of 3,255,000,000 marks equal at par to about \$850,000,000. The average pre-war interest was about 4 per cent. That is 4 per cent bonds were selling at par in 1914. These bonds have always maintained a strong position in the market. At the time of the Napoleonic Wars when Prussian four per cents were quoted at twenty, the land bonds never fell below fifty. In 1920, the Central Landschaft four per cent bonds were quoted at one hundred, while in certain of the provinces they were above par. These facts show how firm a hold after one hundred and fifty years of experience, these securities have on the investing public in Germany.

## **(2) The German Mortgage Credit Banks**

The Mortgage Credit Banks, of which there are sixteen in Germany, are all established under the guarantee of some public authority, either a State, a Province, or a District within a Province. While not restricting their operations to farm mortgages, they all do a large farm mortgage business. They had in 1913 a total of outstanding loans of \$500,000,000, one half of which is in land mortgages, the other half being to local municipal or communal authorities. The funds of these institutions are obtained,—

(a) By the issue of bonds guaranteed by State, Province or District in which it operates. These are recognized by law as trustee securities.

(b) By deposits.

(c) By grants or loans from State or authority concerned.

(d) Payments by borrowers into sinking fund account.

(e) Accumulated funds.

These banks were specially designed to serve the needs of the medium or small landowner to whom loans are made at moderate rates of interest, on an amortization plan and not subject to recall.

These banks are usually managed by a special committee in some cases appointed by the State, in others either wholly or partially by the Assembly or Council of the public authority guaranteeing the liabilities of the bank. They are, strictly speaking, public institutions. Any profits accruing from the operation go to the guaranteeing authority.

I have not been able to obtain information of the standing to-day of these institutions. In normal times, they were functioning greatly to the advantage of the guaranteeing authority and to the borrowers, mostly small farmers and communal organizations.

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**(3) The German Savings Bank**

The German Savings Banks are mortgage credit institutions of very great importance to farmers. Their total investments in farm mortgages in 1913 were about \$850,000,000. In some parts of Germany they were the chief source of mortgage credit for the small farmer. Most of these institutions are public savings banks, established, managed and guaranteed by the public authority. In 1913 there were 2,844 public savings banks of this type in Germany with 7,404 branches.

The deposits in these banks reached the sum of over \$4,000,000,000.

These institutions, being usually under local control and management and not subject to central control are allowed to fix a rate of interest to suit their own convenience.

The result is they pay comparatively high interest on deposits, as high as four per cent. There is no combine to fix rates paid on deposits. The result is the savings of the district go to the banks and loans are made to those people living in the same district. The guarantee of the District Authority makes them absolutely safe.

The charges made on loans are also slightly higher than in the case of the *Landschaften*.

Of the total deposits of over \$4,000,000,000 in 1913, over \$2,500,000,000 was invested in mortgages, of which \$850,000,000 was invested in farm mortgages. The exchange in all the figures in this report is based on gold values of the coinages used.

These institutions are of such great importance in connection with agricultural credit that the following brief statement concerning them taken from the report of Mr. Cahill, will not be without interest:—

"The earliest German savings banks were founded to serve as institutions for safeguarding the poorer classes against absolute poverty by providing a place for the safe deposit of small sums of money until such should be required in bad times. Established in connection with the efforts to reform the poor laws they were regarded rather as philanthropic institutions. But the savings banks lost this character of philanthropy early in the nineteenth century, and have developed along the more general lines of institutions for the furtherance of thrift. They have been established usually by and under the guarantee of public authorities; and in normal cases do not aim at profits beyond the obtaining of an adequate interest upon money deposited with them and the payment of the expenses of management. Any surpluses remaining after paying these charges and making suitable appropriations to reserve are applied to objects of public welfare. In primary aim they are distinguishable from banks in the ordinary sense of the term; they seek deposits, not in order to be in a position to grant credit for their own profit, but to foster thrift, and only to utilize deposits for investments in the interests of the depositors themselves. But while there is this distinction in their aims, German savings banks constitute, by reason of their un-exampled development and freedom of investment credit sources of great importance. Not being obliged to deposit their funds at interest with the State Treasury, or invest in stocks and shares only as such banks are constrained to do in some other countries, but seeking to obtain on investments the best returns consistent with the absolute security of their funds, they have lent a very large percentage of their deposits on mortgages, a considerable proportion of which have been on rural property."

The special advantage of these banks is that they provide farmers with a public mortgage institution in their immediate vicinity and facilitate personal relations between borrower and lender. Its local character and the knowledge its officers possess of the conditions of the borrowers makes it possible to dispense with costs in obtaining a loan, especially that caused by a special valuation. The disadvantages are higher rates of interest, liability of rates of interest to rise or of recall of loan and the limited facilities for reducing mortgages.

The German Mortgage Credit Banks and the Savings Banks correspond somewhat to what is now being done in Ontario and Manitoba through the public credit institutions.

#### (4) The *Crédit Foncier* of France

Mortgage credit in France is provided through the agency of the *Crédit Foncier*, a Land Credit Bank established in 1852 for that purpose. It is a joint stock institution subject to legislative control by the French Government.

When organized the *Crédit Foncier* was given a monopoly for a period of twenty-five years on all land credit business over a large portion of France. The monopoly was later extended to the whole country. The period expired in 1877 but no new competing organization has yet been established, so that land credit still remains a monopoly in France.

The following article of the constitution shows the scheme of capitalization and the relation of normal capital to loans:—

“The Society’s capital is fixed at 200,000,000 francs. It is designed as a guarantee of the society’s obligations and especially of the land (mortgages) and commercial obligation.

“It shall be divided into 400,000 shares of 500 francs each, entirely paid up.

“The amount of the normal capital of the shares shall be maintained in the proportion of one-twentieth at least of the capital realized by the issue of bonds in circulation.”

The capital has since been permitted to be raised to 250,000,000 francs on condition that loans are made in like proportion. Originally the government subsidized the society to the extent of 10,000,000 francs.

It will be seen that this system in its organization differs from the *Landschaft*, in that it is a joint stock organization doing business for profit; the rate of interest, however, is controlled by the Government and must not exceed the rate of interest on the bonds by more than six-tenths of one per cent. As we shall see the Joint Stock Land Bank which forms a part of the system existing in the United States under the Federal Farm Loan Board, corresponds somewhat to the *Crédit Foncier* in that the capital may be subscribed by private investors; the interest is regulated by law; and the twenty to one ratio of capital to loans is also fixed:—

The *Crédit Foncier* grants loans:—

- (a) On mortgage security,
- (b) To municipalities.

Mortgage loans are made on the security of houses and town property and on agricultural land.

These loans are made in one of the following forms:—

(a) Short term loan on mortgage, not to exceed nine years, not repayable by amortization and not repayable till the end of the term. The present rate of interest on these loans is approximately 5%.



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(b) Long term loans, which run from ten to seventy years; repayable by amortization or at the pleasure of the borrower. The rate of interest at present on these loans is, including amortization, approximately 5%. Such loans are made for a maximum of not more than one-half the value of the property mortgaged. In the case of vine-yards, it is only one-third.

(c) Current account loans on mortgage guarantee by opening what is called a mortgage line of credit. The rate on these loans is about one-third higher than that on ordinary mortgages, and the loan is repayable in six months.

In addition to the loans made on mortgages, loans are made to municipalities and public institutions. The rate of interest on these loans is less than on either of the foregoing. These loans are made for a period of from one to nine years.

Since its origin in 1852, the Crédit Foncier has loaned more than 9,000,000,000 francs, and, in 1913, had outstanding 5,000,000,000, the full amount allowed under its capitalization. An additional capitalization may have been permitted since this information was obtained. More than half the loans are in mortgages.

The share capital of the bank was created to give security to the land mortgage operations. All mortgage loans are covered by the issue of bonds, which are sold in the open markets of the country. The borrower is paid in cash at current price of bonds. *The bonds are not guaranteed by the Government.* They are repayable in a maximum of seventy-five years.

The feature worthy of special attention, is that the Crédit Foncier provides both the Short Term and Long Term Credit. A mortgage credit being established by a property valuation for any client, money can be borrowed against this, interest being charged only on the money advanced. This is a feature not found in Germany nor is it copied in the system now in operation in the United States. The Crédit Foncier thus in a measure serves the purpose for certain clients of both long term and short term credit bank. The Crédit Foncier is allowed to take deposits from its clients. *It is also permitted, in default of payment of interest and amortization to sell without notice and without civil procedure in the courts, as in the Landschaften.*

#### (5) The Co-operative Mortgage Banks of Denmark

The Co-operative Mortgage Banks of Denmark are fashioned after the German Landschaften and do not therefore demand a lengthy description.

A mortgage bank in Denmark is a credit association composed of landed proprietors (from the Danish speaking provinces) founded by the sanction of the King with a view to making it easier for its members to borrow money upon easy terms upon the mortgage of their estates and by degrees to repay the sum borrowed. Only borrowers are admitted to the association. The borrower becomes a member when he delivers to the cashier of the association a mortgage upon his property and receives his loan in the shape of debentures of the association. The bonds are then sold to anyone who may wish to buy. The relationship is specifically defined by regulations in conformity with which the loan is made. The security for the principal and interest of the mortgage bond is the sum total of all the mortgages effected by the association.

Bondholders may have their bonds cashed on giving six months' notice. Should the demand, however, exceed the amount at the disposal of the bank through its sinking and reserve fund, the bondholder must wait until payments become due from the mortgages. When a bondholder gives notice of his desire to cash his bond, he is notified the date he can secure payment. Mortgages

are paid by an amortization scheme in forty-seven years, the amortization being three-quarters of one per cent of the loan annually. Payment of a larger amount may be made at the regular payment date, should the mortgagor desire it. Should the sinking fund thus formed exceed the bonds presented for cash at any given time, a drawing is made for other bonds to be redeemed.

The members of the association may borrow up to three-fourths of the value of the property and must pay four per cent interest on mortgages, three-quarters per cent amortization and one-quarter per cent for expenses, making altogether 5 per cent. The value of the property is based directly on the revenue which the borrower can show as accruing annually to him from the property.

The association is managed either directly by the members through a general meeting or by a board of directors chosen by a general meeting. The general meeting is held at least once a year. Full details of their methods are available if desired.

There are 14 associations of the *Landschaft* type in Denmark doing first mortgage business and 9 for second mortgages on small estates. The latter are the only ones of their kind in Europe.

#### **(6) Institutions in other Countries of Europe**

In nearly all other countries in Europe facilities exist in some form for mortgage credit based either on the German or French model. In HOLLAND the government authorized the creation of Joint Stock Mortgage Banks for the purpose of affiliating the small savings organizations which had arisen in the villages and country places and were doing mortgage credit. They were not subsidized by the government and found their money for loans out of the savings deposited in the small village banks which affiliated with them. Mortgages are issued for forty years on an amortization plan.

In AUSTRIA in pre-war days, the mortgage credit business was mainly in the hands of the savings banks. Of these six hundred and sixty-nine were in operation in 1914, mostly in towns and cities. At that date these banks had invested in mortgages 3,700,000,000 crowns, about 55 per cent in agricultural property.

Institutions based on the German *Landschaften* also prevailed and were rapidly growing in 1914.

In HUNGARY, a system of state-supported though not state-owned institutions exist. Mortgage bonds are issued against mortgages in the usual way. In 1911, \$500,000,000 worth of such bonds were in circulation, redeemable under definite regulations. Many of them had been sold in France.

In ITALY, a great number of institutions do agricultural long term mortgage business. Land Credit Institutions, Land Credit Banks, Savings Banks and Mutual Societies all exist for the purpose. They grant loans on first mortgages on a fifty per cent valuation. The amortization period is ten to fifty years. The annual payments include (a) Interest, (b) Amortization instalments, (c) Income tax, (d) Commission and management expense, (e) Revenue and stamp duties. Bonds are sold, where possible, against the total security of mortgages held.

In SWEDEN, there are ten distinct land mortgage associations of the *Landschaften* type created by authority of the Government. These have a monopoly of the land mortgage business. For these there is a central institution known as the Swedish General Mortgage Bank which advances money to the district associations upon the assignment of mortgages taken from the members of the associations. Members of each association are jointly and severally liable for all loans made. The central bank is a semi-public institution closely associated with the government and enjoys a monopoly.



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With regard to the security of the land mortgage systems described, it may be said that the land mortgage bonds are everywhere regarded as the safest kind of security available for both large and small investors. The payment of interest and principle is assured by strict government supervision which prevents over-issue and which sees that all repayments made by borrowers are reserved for repayment of bonds. Their record of accomplishment is so high that money sufficient for their needs flows freely into their treasury.

## (2) Short Term or Personal Credit in Europe

The expression "Short Term or Personal Credit" is used everywhere in Europe to include all types of agricultural credit other than mortgage credit. This form of credit is based mainly on the security of the borrower as indicated by his general standing in his community and on his personal assets apart from land.

Only such institutions as devote their attention mainly to agriculture will be discussed. The ordinary commercial institutions, joint stock banks and savings banks therefore will not come under review, except as they are part of an agricultural credit system.

Under the section devoted to general observations I have set forth briefly the reasons advanced for the development of the institutions herein described. I quote here only one short paragraph from a document which was prepared by a distinguished European authority to set forth the reasons for their creation in Europe.

"Urban bankers being naturally more conversant with commercial or industrial undertakings are less capable of judging the standing of a farmer and his business capacity. Credit implies confidence and facility of supervision; but the banker is unacquainted with farming and farms are comparatively isolated units, usually more or less remote from the banking office. Ordinary commercial tests are not often applicable, especially where small farmers whose book-keeping is apt to be very incomplete and unmethodical, are concerned. The same difficulty presents itself as to proposed sureties who are also likely to be farmers. Other banking security is often out of the question and the procuring and bringing of sureties to the bank involves great loss of time and expense. The world in which the bankers or bank manager moves is not that of the farmer so that personal knowledge is infrequent. The whole situation is rendered even more unfavourable by the supplanting of small country banks by branches of great banks which are directed on fixed lines from headquarters and whose managers are frequently changed. Commercial banks cannot, moreover, be brought nearer than small towns....The smaller farmers offer also little attraction to the ordinary commercial banks as borrowers, and, apart from other disadvantages, pay for the small loan they require an unduly high percentage as interest and commission. As a result, farmers cannot obtain from banks, organized mainly to serve industry and commerce, credit in suitable amounts at reasonable interest and on security which they can usually provide. Yet while commercial banks have become less satisfactory from the standpoint of the farmer, his need for working capital has greatly increased. More scientific and intensive farming, made necessary by competition which has been facilitated by improved and cheapened transport, refrigerating processes, and other causes, requires more capital expenditure on labour, fertilizers, feeding stuffs and machinery; payment in kind being entirely superseded by payment in currency, while money wages are higher; and other expenditure including cash payments to the state and other public authorities has increased."



The quotation is from a European document and may be taken as a reasonable statement of the conditions which gave rise to the institutions about to be described.

Of the institutions in Europe giving short term or personal credit to farmers the following, of which a short description is given, are the most important:—

- (1) The Raiffeisen System of Banks or Credit Societies of Germany.
- (2) The *Crédit Agricole* of France.
- (3) Modifications of 1 and 2 found in other parts of Europe as the Rural Banks and Popular Banks of Italy, Hungary and other countries.

#### **(1) The Raiffeisen System of Banks or Credit Societies of Germany**

There are two distinct steps to be taken to complete the organization of credit on Raiffeisen lines. First the formation among the farmers of local credit societies and second, the organization of a group of societies into a collective body federated into a central bank. These societies are based on what are known as the "Raiffeisen Principles".

(a) Their legal foundation is the unlimited liability of all their members for all liabilities of their particular society.

(b) Their aim is to improve the condition, alike material and moral, of their members.

(c) They admit only members from a distinct district, which is advisedly as narrowly circumscribed as is consistent with its being self-supporting; therefore, there can be no persons members of more societies than one at any one time.

(d) They collect no entrance fee.

(e) So far as the law of the land permits, they issue no shares; wherever the law makes shares obligatory, they limit a member's holding to one share only, which must be small; and should dividend be declared on such share, such dividend must not in rate exceed the interest charged upon loans.

(f) The only officer remunerated for his services is the "accountant" (the employee who keeps the accounts and actually handles the money); members of the managing committee and the council of inspection are expected to discharge their duties without remuneration.

(g) All profit resulting is conscientiously carried to an indivisible common fund belonging to the society as such.

The following statement prepared by the general secretary of the Union of Co-operative Societies in Germany will serve to make clear their purpose and mode of operation:—

"The task which credit societies set themselves is to provide the cash required for advances and credits to be accorded to members; furthermore, to provide for the supply of goods required by members and to make any other arrangements for the promotion of the material welfare of their members which may appear desirable; and the aim which they pursue is to come to the aid of those who are materially weak and to further the intellectual and moral well-being of their members rather than to earn a profit. The foundation upon which they are built up is that of christianity and loyalty; it is a standing rule that at society gatherings neither denominational nor political subjects may be touched upon in discussion.

"These societies are not allowed to engage in any speculative business whatever. Advances and credits are permitted only to members on personal security, and for objects held to be economically legitimate, in

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the shape either of specific loans or else of current accounts. Adequate security must be provided for every loan or credit to be granted. And in respect of every loan the term for repayment is fixed in advance, the length of time and the amount of the instalments for repayment are in every case proportioned to the object of the loan and the power of the borrower to repay within a given time. No loan is granted without consideration of the object for which it is asked and the capacity and title of the borrower to answer for a credit. Borrowers are, on their side, entitled to repay at any time. In respect of certain contingencies the societies reserve to themselves the right of calling in the loan."

When the system is fully organized, it consists of a group of these local societies, each as independent unit, but federated into a Central Bank. The Central Bank acts as a clearing house for the group. It makes it possible to confine the action of the local society to a small group in a fixed district, thus making collective action possible. The Central Bank also serves as a purchasing agency for agricultural requirements and a selling agency for agricultural products.

The Central Bank is a joint stock company, but its shares are held only by the local societies or certain officials of the institution.

The objects of the Bank are:—

(a) To carry on banking and credit business, more particularly as a means of equalizing temporary shortness or oversupply of cash in local banks.

(b) To provide for collective purchase of agricultural requirements, as well as for collective sale of agricultural produce.

The money required for the business of the Bank is provided as follows:—

(a) By the issue of shares to local societies.

(b) By deposits received and loans raised.

(c) By commissions charged and a margin of interest on business transacted.

(d) By profits on the dealing in goods and by similar income.

The money so raised is applied as follows:—

(a) In credits given in current account to local co-operative banks, societies, central banks formed for particular counties or provinces, co-operative societies.

(b) For carrying on a business in goods.

(c) For discounting acceptance and making advances in approved securities in conformity with the practice of the Imperial Bank.

(d) For any other purpose in harmony with the general objects of the institution.

The profits realized are applied as follows:—

(a) To the accumulation of a reserve fund.

(b) To the payment of a dividend on shares, which must not in any case exceed four per cent.

Each local society has a credit fixed by the managing committee of the Central Bank. This credit is based on the valuation of the possessions of the members of the society, the liability being unlimited, that is, each member is jointly responsible for the whole of the obligations of the local society to which he belongs. The borrowing power of each member of a local society is fixed by the local society.

The adjustment of assessment to determine the maximum credit of the local society is made every three years.

The business transacted between the local society and the central bank is as follows: "Should the funds collected locally by the branch offices prove insufficient for their daily requirements, those offices are to apply to the central bank for the balance needed. Such amount is furnished either in cash out of the balance in hand, or else by means of a draft on the Imperial Bank. Sur-



plus funds held by the branch offices are in the same way paid in to the Central Bank. Each branch office is required to send in to the Central Bank every week a return of its transactions and holdings in cash, and every month a full return showing the whole state of its business. By such means the Central Bank is enabled to exercise a steady and effective control over the branches. In addition, each branch office is subjected once every year to a minute inspection carried out, in conjunction with the chief inspector of the union, by a committee nominated by the Council of inspection of the central bank.

"In this manner the Agricultural Central Bank for Germany has, in spite of its formation as a joint stock company, been enabled to retain its genuinely co-operative character, transacting business in its wider sphere practically on the same co-operative lines as the local credit societies do on a small scale. Its being registered as a joint stock company facilitates its business with the money markets, and provides for it, through its share capital, a working fund which cannot be affected by any changes occurring which influence local societies. Keeping the money transactions with societies in its own hands, it is in a position to charge lower rates than societies would be saddled with, were the business to be carried on through the medium of independent provincial intermediate institutions; and by means of its branch offices it secures to itself all that information respecting the financial status of local societies which is imperatively needed for the appropriate apportionment of credit. It is, therefore, a central bank based entirely upon self-help and self-government, and combining in itself all the advantages both of a centralized and a decentralized clearing house for money."

As already mentioned, these societies are not only co-operative agencies for obtaining credit, but also for the purchase and supply of farm requirements, and for the sale of farm produce. Within it are organizations for the purchase of fertilizers, feed, farm machinery and the collective sale of all kinds of farm produce.

In Germany there is a general Union of the Raiffeisen Societies with other types of co-operative societies such as co-operative dairies, etc. All these are under the caption of the "General Union of Rural Societies". Its aim is education. At the close of the year 1913 there were 25,576 of these societies in Germany, of which 16,927 were loan and savings banks of the type described above.

These credit societies have practically banished usury from the communities where they are organized. Any farmer of good standing in his community, who has established a reputation of honesty, may obtain his working capital on reasonable terms. In 1913 these societies had out on loan 1,800,000,000 marks at rates from four to five per cent.

All this was not accomplished by magic. It followed on a determined and systematic effort running through a long period of years to establish credit on a basis of security which reduces to a minimum the liability of loss. In other words, this has been made possible because the security offered is of such a character as to make serious loss to the lender almost impossible. The three essential facts of the security are:—

- (a) The unlimited liability of all members of the society.
- (b) The money borrowed must be put to productive uses.
- (c) The operations of the individual society is limited to a small, well defined area.

## (2) The Crédit Agricole of France

The agricultural credit system as worked in France is the outstanding example in Europe of a credit system involving co-operation among borrowers, either on the principle of limited or unlimited liability, and state aid. It is a state-aided co-operative system.



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This system was created by a law passed in 1894 which took for its nucleus of organization the small unions and agricultural syndicates already in operation in local communities. The following statement from Senator Albert Viger of France for some years President of the National Federation of Agricultural Co-operative Associations indicates the idea behind the scheme:—

“The first step toward the establishment of an Agricultural Credit System in France was to organize rural credit from below, to see that the roots were firmly fixed in the agricultural population itself. An idea formerly prevailed in France as in other countries that agricultural credit could only be established by the formation of great central banks from whence credit could flow out to all the local centres. When the government of France finally took up the question of agricultural credit in earnest, it was planned on an entirely different principle. It was decided that agricultural credit should begin with the lowest group; that the co-operative agricultural society or syndicate should form its own credit bank and that these should grow from below. Under the French system we therefore have the credit syndicate and out of these the departmental banks (Regional Banks) usually located in the principal towns and finally the Central Federation of credit over which I preside. The development of the system has been from the growth of the small unit.”

It will be seen, therefore, that the unit of organization like that of the Raiffeisen system is the small group in the community organized for the purpose of facilitating the credit of the group. There are 4,000 of these local groups or banks organized in France; 1,000 on the principle of unlimited liability; 3,000 with limited liability. A bill is now before the French Parliament compelling the principle of unlimited liability. The system is highly specialized and includes only the farmers of the community.

In 1899, a system of Regional Banks was founded of which there are 100 now in operation. These correspond to the Central Banks of the Raiffeisen system. Each of the four thousand local banks functions through one of the Regional Banks. These are joint stock banks fostered by the state but not state-owned. State aid is granted on condition that they submit to state supervision. This aid stimulates their development so that to-day the system embraces the whole nation.

The Regional Banks were organized for two reasons:—

(a) To discount the bills of the local bank and to endorse them for the Bank of France. This was necessary because the Bank of France is not permitted by law to discount bills with less than three signatures. The endorsements of the farmer, the local bank and the regional bank, fulfil this condition. Further, it places between the Bank of France and the local unit an intermediary capable, from intimate knowledge, of valuing the security offered.

(b) The regional banks were further necessary as a medium for distributing the funds placed at the disposal of agricultural credit, by the Government. Each one receives from the government through the Bank of France four times the amount of its paid-up capital. This amount it uses as a reserve fund on deposit with the Bank of France to secure its credit for discounting purposes. The money for this is found as follows:

The charter of the Bank of France having expired in 1896, was renewed by the Government under certain conditions favourable to agriculture. The conditions were:

First, that the Bank of France must advance to the Government the sum of 40,000,000 francs, free of interest, to use in subsidizing the rural credit organizations.

Second, that it pay annually a certain portion of its yearly profits as an advance for agricultural credit. This conditional advance was to be not less than 2,000,000 francs. It has varied between 4,000,000 francs and 5,000,000 francs annually.

The law of 1896 fixed the annual advance from profits as twelve and one-half per cent, of the net profits on discount business done by the Bank of France. In 1911, when this charter was again renewed this percentage was increased to 14 $\frac{3}{4}$  per cent when the discount rate was 3 $\frac{1}{2}$  per cent and to 16 $\frac{3}{4}$  per cent when the discount rate was 4 per cent. The money provided in this way up to 1920 amounted approximately 200,000,000 francs.

When the charter of the Bank of France was renewed a committee was appointed composed of members of the Senate, representatives of the local banks, directors of the Bank of France and certain other persons through whom the funds provided as above should be distributed to the Regional Banks.

In the operation of these banks three forms of credit are granted:

- (a) Short term personal credit.
- (b) Long term collective credit (non-mortgage).
- (c) Long term personal credit.

#### **(a) Short Term Personal Credit**

This form of credit is given generally for one year. It is strictly personal; only the endorsement of someone of known responsibility is required. The local associations endorses and recommends to the Regional Bank which in turn, should it not have the money, endorses to the Bank of France. As the Bank of France is not allowed to make a loan for a longer period than three months, the advance is made for that period subject to renewal. In one year 85,000,000 francs were loaned in this way, of which 60,000,000 were from money provided by the state.

#### **(b) Long Term Collective Credit (Non-Mortgage)**

The main purpose of this form of credit is to promote the prosperity of the farmers with small holdings. It makes it possible for a group to unite for the production, conservation or marketing of the products actually produced by the members of the association. The members must be really engaged in production. The rate of interest on this form of credit must not exceed 4 per cent. The period of the loan must not exceed twenty-five years. The total loans to one society are limited to twice the capital of the society. This form of long term credit is not found in any other country in Europe.

#### **(c) Long Term Personal Credit**

The following statement from M. Vinreux, of the Crédit Foncier, will explain this kind of credit:

"The law of 1910, providing for personal long term agricultural credit, is the latest stone in the structure of agricultural credit in France. This form of credit is granted by the local banks through the Regional Banks, which receive money for this purpose out of the advance made for the purposes of agricultural credit by the Bank of France. It is only granted to small agricultural holdings, for the purpose of the law is to attach the small peasant farmer to the soil."



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The maximum period for which the loan runs is fifteen years and is only allowed in the case of young farmers. The purpose is to assist the small farmer to purchase holdings and to encourage young men who have finished their military service to take up a farm.

The loans are extinguishable by amortization, and the rate of interest is, as a rule, two per cent. A mortgage on property may be taken but life insurance policies and surety security are accepted.

The French local societies differ from the German ones in certain particulars. They sell shares but only to persons who are already members of some professional agricultural syndicate or agricultural co-operative insurance association. While they may receive deposits a definite maximum is fixed in relation to paid up capital.

Unlike the German societies, the withdrawal of a member does not terminate his liability until the obligations assumed during his membership have been settled. Further, the principle of one man one vote does not apply, voting being based on shares held. In addition, loans may be made by the local society from its own funds for productive uses to farmers who are not members. The Regional Bank, however, with which the local society is affiliated, is not permitted to discount loans made to non-members. Lastly, no state aid is given to the local bank as such. All state aid is given to the Regional Banks which make loans directly to the person endorsed by the local society. As these organizations have a monopoly with respect to Government assistance, co-operation on the part of the farmer is almost compulsory.

Reference has been made so often in the foregoing to the Bank of France, that a word of explanation seems necessary. The Bank of France is a bank of issue; that is, its function is to issue paper money and re-imburse it. It issues notes either against deposits or on the guarantee of credit operations. It is prohibited from issuing loans on any other basis. The repayment of the paper francs in circulation is guaranteed either in coin or commercial paper protected by bonds.

The Bank of France assists agriculture in three ways. First, in conformity with regulations mentioned above it assists the individual agriculturist by facilitating loans and discounts. Second, it makes possible the work of the agricultural banks by rediscounting for the Regional Banks and other commercial banks. Third, it provides the government with funds with which to supply the needs of the agricultural credit banks.

### (3) Modifications of (1) and (2) Found in Other Parts of Europe

Many variations of the foregoing types of credit institutions for personal credit are found in various parts of Europe. Nearly every country has found some modification necessary to suit its own requirements. In Italy personal credit is granted by both state and co-operative institutions. The aid of the state, as in France generally finds its way to the borrower through these co-operative institutions, and not directly to the individuals. By means of special legislation the Government of Italy has made provision to the extent of over \$14,000,000 for agricultural loans at reasonable rates of interest, a maximum of six per cent being charged.

The co-operative banks of Italy are based on the ideas before mentioned. As applied to Italy they are known as—

(a) The Peoples Banks, organized by Luigi Luzzatti.

(b) The Rural Banks, organized by the Leone Wollenborg.

The inspiration in each case came from Germany and is but the application of known principles. There are about 2,000 banks of the second class in Italy of which two-thirds are under the control of the church.



In nearly every other country of Europe similar institutions exist for the promotion of agricultural credit. It is not too much to say that these institutions have been one of the most important factors in improving rural conditions in Europe. As stated by one who is an enthusiastic admirer of them, "The use of credit in agriculture may be compared to the use of water. If the water is brought into the field at the right time, in the proper way, and in proper quantities, it will be valuable; but if the field is flooded or if the water is applied at the wrong time, it will be destructive." These societies have aimed to apply credit to productive purposes and without question have attained their object.

## SECTION III

## RURAL CREDIT IN THE BRITISH EMPIRE OUTSIDE OF CANADA

## The United Kingdom

Co-operation for the purpose of promoting agriculture and carrying with it the organization of co-operative credit, began in the United Kingdom in the year 1895. At first, it was mainly confined to Ireland, where the Irish, Agricultural Organization Society was promoted. Development began in England in 1901 and in 1905 in Scotland, where societies were established following the Irish pattern established by Sir Horace Plunkett. The following statement from Sir Horace Plunkett indicates the principle on which the institutions were organized—"The keynote of our proposals is in the proposition that the farmers must work out their own salvation, and, further, that this can only be done by combination among themselves."

The objects set before them were "to secure the co-operation of all connected with the land, whether owners, occupiers, or labourers, and to promote the formation of agricultural co-operative societies for the purchase of requisites, for the sale of produce, for agricultural credit banking and insurance and for all other forms of co-operation for the benefit of agriculture."

Under the Agricultural Organization Society, all organizations were allowed to affiliate, which aimed at co-operation. By 1914, out of 495 co-operative societies organized in Great Britain and affiliated, there were 48 credit societies and one central co-operative agricultural bank. It is with the activities of the agricultural co-operative credit societies that we are specially concerned.

The following statement issued by the Board of Agriculture and Fisheries in 1912 indicates the point of view of the British authorities with respect to these societies:—

"It is possible to form an agricultural co-operative credit society under the Industrial and Provident Societies Act, with shares and share capital and limited liability; but, as a matter of fact, all the societies of this character now in existence in England and Wales have been registered under the Friendly Societies Act, 1896, and the special authority granted by the treasury in accordance with section 8 (5) of that Act. A society registered under that authority must have for its object the creation of funds by monthly or other subscriptions, to be lent out to, or invested for, the members of the society, or for their benefit, and must have in its rules provisions that no part of its funds shall be divided by way of profit, bonus, dividend or otherwise among its members, and that all money lent to members shall be applied to such purpose as the society or its committee of management may approve."

## Unlimited Liability

All the societies organized under the Friendly Societies Act in Great Britain are unlimited liability societies, that is, every member of the society is, equally with every other member, jointly and severally liable for all debts incurred by the society and for any loan which any member or his sureties may fail to pay. No one is admitted as a member to a society unless he lives within a certain prescribed area, such as a parish or two or more adjoining parishes. He must

also be approved by the committee as a man of good character, worthy of admission to the society. All the members have an equal voice in the election of the committee of management.

Through these societies, loans are made to members on approved security for a specific purpose of such a productive nature that the loan may be repaid through the activity in which it is invested. The maximum loan is £50.

### Deposits

The societies are permitted to receive deposits either from members or non-members and to pay interest on them. All profits are carried to a reserve fund for the purpose of meeting possible losses and no dividends are permitted. The only benefit which any person receives by becoming a member of the society is the special benefit of receiving loans.

The loans are taken out for any purposes likely, in the opinion of the loaning committee, to prove profitable, such as the purchase of sheep, pigs, cattle, horses, to procure seed, plants or manure, or for the employment of extra labour, and are made repayable at the time when the borrower may expect to reap the return of his expenditure, generally running from six to twelve months. Loans are granted for a period of two years under certain special conditions.

The rate of interest varies from  $4\frac{1}{2}$  per cent to 6 per cent.

The total amount of loans under these societies is not large and they have not played a very large part in the development of agriculture in Great Britain. Perhaps the chief reason for this is the unpopularity in Britain of the principle of unlimited liability and the fact that Great Britain is served so thoroughly by joint stock banks as compared with other countries on the continent of Europe.

Some of the joint stock banks have been willing to assist in financing these societies; in fact, many of them have offered their co-operation but even this did not assist the growth to any considerable extent.

In Ireland, organization of credit societies of the type just described has been much more rapid. In 1913, there were 236 of these credit societies in Ireland, with a total membership of 19,105 and a loan capital of approximately \$275,000 and a turnover of about the same amount.

This probably represents the position in the United Kingdom at the outbreak of the war so far as Short Term Credit was organized among the farmers.

### Long Term Credit

Long term credit in Great Britain has always been regarded as a field for private enterprise. In order that permanent improvements might be carried out by land owners, special corporations were organized, under government regulation, but without government assistance, for the purpose of making loans to farmers. For example, the General Land Drainage Company was formed in 1849, the Land Improvements Company in 1853, the Scottish Drainage and Improvement Company in 1856 and the Land Loan and Enfranchisement Company in 1860. The first and last of these just mentioned were absorbed into the Land Improvements Company in 1864.

All these companies were authorized under statutory authority which permitted charges to be made against estates. The interest was limited to 5 per cent. Since the war, it has been found necessary to remove the 5 per cent limit and to allow the rate of interest to be fixed by the Board of Agriculture.

The Improvement of Lands Act of 1864, authorized land owners to raise loans on mortgages against their estates. From its inception the Land Improvements Company authorized under the Act advanced approximately £13,000,000 for various improvement purposes.



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There was a similar organization for Scotland.

Under these schemes, money is advanced for the erection of farm buildings and cottages, for the making of roads, sewers, drains and for the erection of silos. Before the loan is made, the application must be submitted to the Department of Agriculture and Fisheries for inspection and approval. The loans are repayable by an annuity for a prescribed period, which varies from 15 to 40 years, according to the nature of the improvements.

The mortgage given ranks prior to existing mortgages, but not as against statutory taxes. As these mortgages are usually assignable to insurance companies, who seek them for investment purposes, the resources of the company are very great and money has always been easily available.

Under a general statute of Great Britain, machinery is created for the organization of other companies to do corresponding work so that there is a basis for the development of regulated private enterprise in this connection to a very considerable extent.

During the war, the position of agriculture in England underwent a great change. There was an increase in England and Wales of over 21,000 landholders as compared with 1914, and in Scotland an increase of 1,600. The majority of these purchases took place between June, 1919, and June, 1921, the total involving a change in ownership of approximately 2,000,000 acres of farm lands.

There were two reasons for this—(a) There was a desire on the part of many landowners on account of heavy taxation to dispose of their land, and (b) a keen demand for the purchase of farms for the purpose of land settlement, due to the increased price of farm products. In October, 1919, the then Prime Minister gave the farmers an assurance that the prices of staple products would be maintained in case of the markets falling, so as to safeguard them against serious loss. This was put upon the statute book in 1920, a sliding scale being fixed, based upon the 1919 cost of production. This was the period during which so much land was purchased and at prices beyond normal values. The following year, 1921, conditions had arisen which made it impossible to carry out the provisions of the statute of 1920 and it was repealed.

A committee was appointed by parliament in 1923 to make an investigation into the whole matter and decided that "the plea that the farmer was induced to buy land by the representations made by the Government has undoubtedly a solid foundation," and, therefore, some scheme of relief was necessary.

The fall in prices further produced generally a condition with regard to the farmers in England that was brought about by the fall of prices in both Canada and the United States. A great deal of the money used in the purchase of lands had been borrowed from the banks by means of overdrafts and, as the banks were not allowed to take mortgages, the position of both banks and farmers was considered precarious.

The same committee went into the whole question of short term credit for farmers to meet their current needs and examined the facilities that were offered by the banks and the conditions under which loans were made. It is not necessary in this report to go into the details of the enquiry. Suffice it to say that the relation of the banks, the credit of merchants and dealers were all inquired into. It was found that there was outstanding approximately £46,000,000 on loans to farmers from the banks, of which £26,000,000 had been advanced for the purchase of land and £20,000,000 for normal current production. The committee was of the opinion that bank facilities were, in the main, available to farmers in good standing, but that a large class of small

farmers, who did not easily have access to the banks, had not credit facilities necessary to make a success of their occupation. Recommendations were, therefore, made covering both the long term and short term credit and were incorporated into an act of parliament, which was passed July 31st, 1923.

#### **Provisions under Act, July 1923, for Long Term Loans**

Under this Act, power is given to the Public Works Loan Commissioners to lend money to associations created for the purpose of making advances upon farm mortgages at any time within five years after the passing of the Act, the total amount to be subject to the approval of the Treasury and under conditions which the Treasury may prescribe. The borrower must be a person who had agreed to purchase the land comprised in the mortgage not earlier than the 5th day of April, 1917, and not later than the 27th June, 1921. The object of this is to cover the period of inflated land prices.

The land comprised in the mortgage must be wholly or mainly agricultural land.

The amount of the loan must not exceed 75 per cent of the value ascertained to the satisfaction of the Commissioners, or exceed an amount equal to thirty times the annual value of the land as ascertained for income tax purposes.

The rate of interest is to be fixed by the Treasury.

The loan is repayable in sixty years by yearly instalments of the principal advanced, together with interest charges.

The land must be free-hold or copy-hold land.

The advance is made by the Commissioners to an Approved Association, which, in turn, secures the mortgage on the property.

"For the purpose of the Act, the expression 'Approved Association' means an association which is approved by the Treasury for the purposes of this Act and which does not trade for profit and by its constitution or otherwise is restricted in relation to the rate of interest on loan capital and the distribution of profits among its members, so as to comply with regulations made in that behalf by the Treasury."

The sections of the act referring to Long Term Credit, as previously stated, are designed to assist recent purchasers of land.

#### **Provisions under Act, 1923, for Short Term Loans**

The Act further calls upon the Minister of Agriculture and Fisheries to "take such steps as are practicable to promote the formation or extension of Agricultural Credit Societies, that is to say, societies approved by the Minister and registered under the Industrial and Provident Societies Act, 1893, having for their object or one of their objects, the making of advances to members of the society repayable within a period not exceeding five years for such agricultural purposes as may be approved by the Minister."

The Minister of Agriculture and Fisheries is authorized at any time within three years after the passing of the Act, or during such additional period as the Treasury may prescribe to make advances to such societies to an amount equal to the amount of shares held by members of the society and of which at least 25 per cent has been paid up. This is clearly an effort to create a greater interest in the Agricultural Credit Societies mentioned earlier in this section.

The Act is made, subject to certain modifications, to apply to Scotland.

The Act is cited as the "Agricultural Credits Act of 1923."

In this report I have not taken cognizance of special Acts for the purchase of land from landowners, such as the enactments for the purchase of land in Ireland.

It is expected that, under the stimulation of government assistance, the Credit Societies will have a rapid development, especially among small farmers. The overcoming of the individualistic tendencies of the British farmer, however, is likely to be a slow process.



### The Commonwealth of Australia

In all the States of the Australian Commonwealth, provision is made for loans from government sources to farmers, both for short term and long term credit. In most of the States, advances are made as loans to settlers, advances for the purchase of farms, and advances under the Returned Soldiers' Settlement Act. The Commonwealth government has contributed by advances to the various States to meet the requirements of the Returned Soldiers' Settlement Act. These advances to the States up to June 30th, 1923, amounted to approximately £32,866,000.

#### New South Wales

In New South Wales, there is a Government Savings Bank with a Rural Credits Department. Through the Rural Credits Department all advances are made to settlers. For Short Term loans, these advances are made as overdrafts on current account. For Long Term loans they are made on first mortgages with an amortization period of 31 years. The limits of the loans made under the Act are £50 to £2,000. They may be made,—

- (1) for the purchase of farms, in which case advances must not exceed 80 per cent of the valuation of the security and are limited to £1,250;
- (2) for land held in fee simple; the loan must not exceed 66 per cent of the security;
- (3) not exceeding £500 in the case of homestead lands, provided that this does not exceed the value of the improvements on the land;

Loans may also be made on land leased for a period of years on a basis of 50 per cent of the security which the borrower can offer.

The savings banks are under a Board of Commissioners, to whom is given the authority to make loans.

As the advances to returned soldiers are under a special act for a special purpose, I am not entering into a discussion of these loans.

#### Victoria

In the State of Victoria, the State Savings Bank is the institution through which money is advanced to settlers. Under this bank there is a loan mortgage department created for the express purpose of making loans to settlers. This department is authorized to borrow up to £10,000,000 for the purpose of making loans. The bank is controlled by a Board of Commissioners on whom is conferred the authority to decide on loans.

The limits of the loans are the same as in New South Wales, viz., £50 to £2,000, a limit of two-thirds of the value of the security offered.

In the case of special land used for vineyards, hop-grounds, orchards, etc., advances may be made to a much larger limit, subject to the will of the commissioners.

Mortgage bonds may be sold for the purposes of the Act and the loan may be made in cash or in mortgage bonds at a price fixed by the commissioners.

Victoria has, in addition to this State Savings Bank Act, an Act called "The Closer Settlement Act," which is under a board known as "The Closer Settlement Board," through which loans, so far as agriculture is concerned, may be made,—

- (1) to agricultural labourers on allotments in aid of the cost of fencing and erecting dwelling houses;
- (2) to lessees of crown lands for carrying on farming or grazing pursuits and to owners of land for the purchase of fencing, etc.

The interest fixed is 5% and the repayments are made on the basis of forty half-yearly instalments.



### Queensland

In Queensland, advances are made under a State Advances Act and the Co-operative Agricultural Production Act. Under the State Advances Act, the board of management may make advances to property owners for any of the general purposes of agriculture against first mortgage on property. The limit of advances is £1,200 and in no case to exceed 75 per cent of the value of the property.

Advances may be made to purchase property or to refund indebtedness for agricultural purposes, to purchase stock and implements, to effect improvements or any general agricultural productive purposes.

The loan is repayable in 20 years in half-yearly instalments.

The interest rate is 5%. Interest only is payable during the first five years, amortization beginning after the end of the five year period.

Under the Act known as "The Co-operative Agricultural Production Act", advances may be made to any co-operative organization engaged in manufacturing processes relating to agriculture. These loans may be made up to two-thirds of the entire cost of the machinery and buildings necessary for the process.

This Law calls for the organization of associations with capital shares of which at least two-thirds must be held by producers. Upon the shares no dividend greater than six per cent is permitted. The security in this case is a first mortgage on property.

### South Australia

In South Australia, there are a number of Acts, under which advances may be made to farmers out of government funds, of which the most important are:—

(1) The Crown Lands Act. Under this Act, advances may be made to homestead holders for erecting buildings and making improvements on their land. The limit of loan is £50.

(2) The Advance to Settlers on Crown Lands Act. Under this Act there is a Board known as the Advances to Settlers Board, which is authorized to make advances to any settler on the security of his land and improvements, for the purpose of making improvements, the limit being £400. An additional loan of £250 can be made provided this is not greater than three-fourths of the excess value above £400 of the property. The loan may be made for discharging existing mortgage or for any other productive purpose, if satisfactory to the Board.

Interest only is required on the loan for the first five years and from that time it is amortized by half-yearly instalments in thirty years.

(3) The State Advances Act. The State Advances Act is similar to the State Advances Act previously described. Loans under this act cannot exceed £5,000 and must be repaid within 42 years. The loan is based on a three-fifths value of the property.

(4) The Irrigation Act. Under this Act, there is a Commission known as The Irrigation Commission, which may make loans on leased property for the purpose of clearing, fencing, constructing channels or drains, or for erecting buildings. A limit of £600 is fixed. In addition to this, £200 may be advanced for the purpose of improvements, stocks, etc. An additional loan may be made for refunding in the case of mortgage property.

(5) Under the Loans to Producers Act, the Minister of Agriculture may, on the security of a mortgage on the property, make loans to any registered co-operative society, three-fourths of whose members are engaged in agriculture. This money can be applied to the erection of factories, packing houses, etc., etc., the Minister being protected by first mortgage on the property.

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(6) There is one other Act, known as The Agricultural Graduates Land Settlement Act. So far as I am aware, this is the only act of its kind in existence. Under the provisions of this Act, the government is authorized to purchase land with a view to the settlement of graduates of agricultural colleges. Loans under this Act may be made up to £3,000 for each graduate and an additional £500 for the purpose of purchasing seed, implements, etc. During the first three years, interest only is payable and the capital in half-yearly instalments during the following six years.

**Western Australia**

In Western Australia, an Agricultural Bank was established in 1895. The management of this Bank has authority to make advances up to £2,000 on the security of first mortgages to persons engaged in agricultural pursuits. Advances are repayable over a period of 30 years. Interest only is payable during the first ten years and the principal on an amortization plan with the interest during the remaining 20 years.

**Tasmania**

In Tasmania advances are made to farmers and producers under three separate Acts, functioning in a manner similar to those in the other States. Those are (1) The Advances Act, (2) The Closer Settlement Act, and (3) The Advance to Fruit Growers Act.

Under the various Acts described there was loaned, during the

year 1922, in the Australian States. . . . .	£12,801,731
The total advances to date were. . . . .	£77,323,766
And the outstanding balances in all the states amounted to. . . . .	£53,913,716

**The Union of South Africa**

For the purpose of promoting agricultural credit, the "Land and Agricultural Bank of South Africa" was established in 1912. Before the establishment of the Union of South Africa, a number of the parts which entered into the Union had loan banks of their own; for example, the "Transvaal Land and Agricultural Bank," "The Land and Agricultural Loan Fund of the Orange Free State," "The Land and Agricultural Loan Fund of Natal," "The Agricultural Credit Bank in the Cape of Good Hope." The latter bank had, however, never been operated. With the establishment of the Land and Agricultural Bank of South Africa in 1912, all the provincial banks ceased to exist and their assets and liabilities were transferred into the new bank, cited as "The Union Land Bank."

When the Union Land Bank started business, it had a capital of £2,735,000, derived from the provincial banks on the basis of the settlement under which the amalgamation was effected. In addition to this, its capital consists of—

Such monies as the parliament may from time to time appropriate and such amounts as may be recovered from loans under certain old enactments which become part of the general scheme, and such further amounts as the bank may be able to raise for the purpose of financing co-operative societies by means of—

- (1) discounting with other banks bills of co-operative societies,
- (2) overdrafts with other banks,
- (3) issuing Land Bank bills.

Up to the end of 1922, Parliament had authorized advances to just over £4,000,000. On account of the war, however, all of this had not been paid into the funds of the bank, but £3,060,361 were actually paid in by the Minister

of Finance. In the meantime, approximately £340,000 has been added to the bank as a result of collections under the arrangements mentioned above. The total capital of the bank, therefore, at the end of 1922 was approximately £6,000,000.

On this amount Parliament has authorized the payment of  $3\frac{3}{4}$  per cent, but by resolution of Parliament, the interest charges varied during the period of the war. At the moment, the bank is returning to the state an amount in excess of the cost of the money raised by the state.

This bank is under the management of a central board, appointed by the Governor General, consisting of a general manager and four other members. In addition, local boards have been established at Cape Town, at Port Elizabeth and at Bloemfontein, for advisory purposes only, the headquarters of the bank being at Pretoria.

Under the Act, every magistrate, field cornet and police officer and the Postmaster General and any officer under him are by law agents of the bank when required by the central board to give assistance.

The main objects of the Bank, in so far as they affect agriculture, are—

- (1) to make advances to farmers against the security of first mortgage on agricultural and pastoral lands. Advances cannot be greater than 60 per cent of the appraised value of the land nor greater than a maximum of £2,000;
- (2) to make advances to agricultural co-operative societies against the security of the joint liability of the members for the society's debts;
- (3) to make advances to farmers to construct dipping tanks, silos and other contrivances for the making or storage of ensilage and to erect boundary fences;
- (4) to make advances to settlers who hold land from the Crown under lease or license. In addition, advances made to farmers by Parliament for purposes of relieving distress from time to time have been administered by the Bank;
- (5) to promote co-operation among farmers.

The bank's relation to the co-operation societies, is that of a lending agency. Legally the Bank is not responsible for the formation of these societies. They are formed under a special Act for the Promotion of Co-operation, administered by the Department of Agriculture.

These co-operative societies at first were unlimited liability, but, by an Act passed in 1922, the Bank is authorized to make advances to these societies with limited liability, to receive money on fixed deposits for the purpose of financing co-operative societies and to make advances with respect to fencing of boundaries and public roads.

Prior to 1921, the Bank was authorized to charge only 5 per cent interest; since 1921, 6 per cent interest has been charged on all loans.

It will thus be seen that this Bank serves the purpose of the Long Term Credit and Short Term Credit organizations in other countries, that is, it makes capital loans on first mortgages to farmers, and, in addition, makes short term loans for seasonal purposes through the co-operative societies organized within the Union.

Since its inception in 1912, the Bank has shown a net profit of £355,596, being 5.14 per cent on the capital invested.

"While the bank is conducted on ordinary commercial lines, its object is not to make large profits and the law provides that as soon as the reserve fund and the capital of the bank total such an amount as is in the board's opinion adequate



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to enable the bank to fully carry out its objects, an amount determined by the board will be paid to the Minister of Finance out of the profits and the reserve fund of the bank, but the amount of the reserve fund may not be reduced below £350,000... It is anticipated that the time is not far distant when the bank will be fully able to carry out its objects on its own resources and that it will be in a position to commence the repayment of its capital."

On the 31st of December, 1922, the co-operative societies owed the Bank £750,565, while the turnover of the co-operative societies for the same year was £1,237,400.

The amount of loans on mortgages on 31st December, 1922, was £5,858,824. These figures will suffice to show the relation between Short Term Credit to co-operative societies and that of Long Term Credit on mortgages.

It will thus be seen that under the South African plan, agriculture is called upon to carry itself financially, the government borrowing the money, thus giving security to the lenders and making possible reasonable interest rate, while the business of the bank is supposed to be conducted so as to secure a business-like return to the State.

### The Dominion of New Zealand

The effort to promote agricultural settlement through government support began in New Zealand many years ago and has been worked out with greater detail with respect to the classification of land and the kind of security offered for loans than in any other part of the British Empire.

Under the authority of an Act passed in 1892, the government began the purchase of lands in order to make provision for their sale or lease to private individuals. In 1894, an Act was passed, known as "The Advances to Settlers Act," the first of a considerable number of enactments having for their object the lending of money to settlers and workers for the purchase and improvement of farms and for the general development of the resources of the Dominion.

Two general ideas lie behind all these schemes:—

- (1) The providing of money on security direct to settlers, and
- (2) The providing of money by the government itself in the survey and improvement of purchased lands with the intention of recouping themselves from the sale of the land.

Under the Advances to Settlers Act of 1894, an Advances to Settlers Office was established and authority was taken to raise £3,000,000 within two years for the purposes of the Act.

A number of other Acts were passed prior to 1913 relating to the subdivision of the land, all of which were embodied in a new Act passed in 1913, known as "The State Advances Act."

This Act is of a general character relating to many things other than advances to agriculture, making provision for advances to settlers, for advances to workers and for advances to local authorities. In this report, except incidentally, only the agricultural phases of the Act are dealt with.

#### Advances to Settlers

With regard to advances to settlers, the Act authorizes the establishment of an office, called the State Advances Office, managed by an officer called the Superintendent, who in his own right becomes a corporation. He holds office at the pleasure of the government.

Under this Act, the Advances to Settlers Branch is authorized to make first mortgages on lands in New Zealand when free from all encumbrances, liens and interest, other than leasehold interest. The Act defines freehold land

as land registered under the Registration Act of 1908 and describes a great many other types of land, which, under special forms of lease, are also eligible as security for loans.

Advances are made between the limits of £25 and £2,000, but loans not exceeding £500 are given priority. In the case of freehold lands, loans are granted to three-fifths of the value of the security, or two-thirds, if the land be first class agricultural land. In the case of lands where the security is leasehold, loans are granted to three-fifths of the value of the lessee's interest.

Loans are made at the rate of 5 per cent interest per annum, and are repayable in 36½ years on the amortization principle. The borrower is permitted, however, to repay from time to time part of the principal in amounts not less than five pounds or a multiple of five pounds.

In order to encourage early payment, one-tenth of the interest is rebated, if the mortgagor, not being in arrears for previous instalments, pays his interest on or before the date due.

### Funds for Loans

Section 18 of the Act sets out the process by which money for the purpose is raised:

- (1) For the purpose of the Advances Office, the Minister of Finance, on being authorized by the Governor in Council so to do, may from time to time raise on the security of and charge upon the public revenue of New Zealand, such sums of money as he deems fit, not exceeding in any one financial year the amounts hereinafter specified.
- (2) The maximum amount that may be raised in any one financial year for the business of the several branches of the Advances Office shall be as follows:

For the Advances to Settlers Branch . . .	£1,500,000
For the Advances to Workers Branch . . .	£ 750,000
For the Advances to Local Authorities . .	£1,000,000

- (3) The sum so raised shall bear interest at such rate, not exceeding five per cent per annum, as the Minister prescribes.

Since the inception of the scheme in 1894, loans have been advanced to 53,228 people amounting to £19,826,000, of which £12,155,812 has been repaid, leaving outstanding £7,670,188. These figures are as at December 31, 1921. Of the loans outstanding at the above date, 14,166 are for sums not exceeding £500.

Of the amount outstanding approximately £4,500,000 is on rural land, the balance being on urban or suburban land.

It may be of interest to note that under the Advances to Workers Branch (and a "worker" is defined as a person whose income does not exceed £200), there has been loaned out £4,446,685, and under the Advances to Local Authorities Branch, there has been loaned out £4,661,000.

In addition to the money raised as described above, the Act authorizes the lending to settlers of the amount paid in to the Public Debt Sinking Fund and the amount also paid in to the Advances Office Sinking Fund.

Sir George Elliott, Chairman of the Board of Directors of the Bank of New Zealand, the government bank, recently stated that the total mortgage indebtedness of New Zealand was not less than £200,000,000. Of this amount approximately £7,000,000 is outstanding under the State Advance Act, which, after all, is a very moderate amount in comparison with the whole. He states that of the £200,000,000 loaned on mortgage, by far the largest proportion has been obtained from sources within the Dominion of New Zealand and represents money in the possession of persons of moderate means.

As a large proportion of the loans under the Advances to Settlers Act is in amounts not exceeding £500, it would appear that advantage has been taken of

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this Act by a considerable number of persons of moderate means, who, at the time of taking the loans, were in the process of establishing themselves.

A Moratorium Act has been in force in New Zealand with respect to repayment of the principal of mortgage loans for nine years and will expire on 31st December, 1924.

During the war period, the same conditions with respect to the prices of land which existed in England and the United States, and, to a limited extent, in Canada, existed in New Zealand, giving rise to after war hardships which made the moratorium necessary.

**Short Term Loans**

The Bank of New Zealand, which is a bank conducted by a Board for the State also does a very large business with the farmers. £10,000,000 of the outstanding obligations as at March 31, 1922, were advances on short term loans made to farmers. A very large proportion of the loans were under £100, and, therefore, were probably made to farmers of moderate means.

During the session of the Parliament of New Zealand of 1922, an Act providing for the incorporation of local associations of the usual co-operative character was passed. The objects to which loans under these organizations could be applied were as follows:—

- (a) Clearing, fencing, drainage and improvement of a piece of ground occupied by the member;
- (b) Construction of buildings on these grounds;
- (c) Purchase of tools, livestock, seed, plants, trees and other things useful for the occupation or exploitation of land;
- (d) Purchase of professional implements;
- (e) Payment of mortgages, debts, and other obligations of the member;
- (f) All the other objects which the Governor General in Council may declare as approved in the sense and for the purposes of the present law.

No associations had been formed under this Act up to 31st July, 1923.

In all the British Dominions, agriculture has left very heavily the after effects of the war and special consideration has been granted it. Reports would indicate that the institutions described above and designed to aid agriculture are functioning as satisfactorily as could be expected.



## SECTION IV

## RURAL CREDIT IN THE UNITED STATES

## (1) Long Term or Mortgage Credit

The agitation for rural credit in the United States began many years ago. During periods of prosperity it would lie dormant but would spring into life again during periods of depression. The whole movement which led to the establishment of the small state banks with authority to do mortgage business was a result of the conviction that the large national banks under federal regulations were so commercial and industrial in their spirit and organization that the state system of small banks was necessary to agriculture. It was an effort to solve the problem of mortgage credit from within the state. The fact is that almost without being recognized agriculture had become so enormous in its industrial and commercial relations that old methods of financing its operations were felt to be inadequate without the real reason becoming quite apparent. This state of affairs was brought about by the permanent settlement of the enormous areas of good agricultural land and the disappearance of cheap new lands capable of easy settlement; the consequent rise in value of the lands in the settled area and the difficulty of securing, without being possessed of considerable capital, good farms; the better education of the farming population and the consequent application of modern science to agriculture.

With regard to available lands it may be noted that by 1915, six-sevenths of all the free land of the United States had been taken up and what remained was mostly desert, dry or swampy land which could not be brought under cultivation without great capital expenditure. This was brought about by the passage of the Homestead Act of 1862. Long before 1900 therefore land in the settled areas had so advanced in price that the difficulty of obtaining good land by those who desired to cultivate it became very great and larger capital expenditures were necessary. This fact is indicated by the enormous increase in the price of land as shown by the United States census and by the rapid increase in the number of tenant farmers. Land which had been bought originally for \$1.25 an acre was worth in 1915 from 150 to \$250 per acre. The average price of plow land in the United States in 1919 was estimated by the United States Bureau of Crop Estimates as \$74.31 per acre, while since 1900 the average value of the farms in the country had increased approximately 400%.

Parallel with this rise of values and as a consequence of it was a great increase in the number of tenant farmers. In 1880, 25.6% of the farmers of the United States were tenants; in 1920 this had increased to 38%. The high prices meant either becoming a tenant or removing to the centres of industry.

During the same period and prior to the establishment of the Farm Loan Board in 1916, there had been an enormous growth of farm mortgage business through the agencies established under state and federal laws for the purpose. In 1913, the estimated total value of farm mortgages in the United States was \$3,599,000,000. In the seven years following, this had increased to the enormous total of over \$8,000,000,000, the figure at which it now stands approximately. The agencies granting these mortgages were the Farm Mortgage Banks, Farm Loan Companies, Insurance Companies, local investors, private lenders and State Banks and Savings Banks.

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**Farm Mortgage Banks**

The Farm Mortgage Banks were really the pioneer institutions. They came into being after the Civil War following the development of the western states, because of the necessity for an intermediary between the eastern capitalists seeking investments and the western farmer. Men living in the new centres of populations, familiar with the country and confident of its future loaned their small capital to farmers on first mortgages and then sold the mortgages to the men of means in the East who possessed larger means and who desired good investments. From such a small beginning larger farm mortgage banks came into being, the bank taking the place of the intermediary instead of the individuals. In 1921, Farm Mortgage Banks and Farm Loan Companies organized on the same principles had over \$3,000,000,000 of mortgages. These institutions put their own money into the loan, sell it either directly or by means of bonds to the capitalist, collect the interest and principal and in general act as agents for the secondary investor, while carrying the responsibility for the transaction in case of failure on the part of the borrower.

**Insurance Companies**

Next in importance came the Insurance Companies. These had invested in farm mortgages in 1921, \$1,250,000,000. Many of these mortgages were purchased from the Farm Mortgage Banks. As their aim is security as well as profit, they will doubtless be heavy buyers of the bonds of the Farm Loan Board. A number of these companies are now making loans on the amortization plan.

**National Banks**

Prior to 1913 the National Banks were not permitted to lend on the security of land. They were primarily commercial institutions and required liquid assets. Many of these, however, acted as agents doing the work of a Farm Mortgage Company for private persons and insurance companies. Since 1913 National Banks, when not situated in a Federal Reserve City, may make loans on farm lands under certain definite restrictions. For example, such a loan can only be a first mortgage on improved property and the total loans at any time must not exceed one-fourth of the capital and surplus of the banks.

**State Banks**

Since 1890 a very large part in mortgage credit business has been played by the State Banks. Of these there are now nearly 20,000 in the United States. As previously stated they grew rapidly after the free lands had been settled and the demand for rural credits became somewhat insistent. They depend mainly on the farming community for their business and are planned to meet its needs. Many of them prefer the State charter to the National charter for the reason that the former carries with it more privileges in the direction of the mortgage business. It is estimated that the mortgages held by the State Banks amounted in 1915 to at least \$1,000,000,000. They are, however, definitely restricted by the fact that most of them have small capital and are provincial in their character and outlook.

**Trust Companies and Other Organizations**

In addition to the foregoing a considerable amount of farm mortgage business is done by Trust Companies, Building and Loan Associations and a great variety of saving banks operating under state laws. Probably one-third of the total mortgage business is done through these agencies.

With all these agencies at work it would seem that all legitimate claims for money on farm mortgage security would be met.



That such was not the case was due to following causes:—

(1) The high average of interest rates which prevailed, when compared with the European farmers with whom the American farmer must compete especially in the newer settled parts of the country, the parts least able to pay.

(2) The excessive costs connected with the making of loans, namely legal costs, commissions, and incidental expenses.

(3) The impossibility of meeting mortgage payments out of production of the land because of the short terms for which the mortgage was made. This is emphasized when the increased cost of the instruments and methods of production are considered.

(4) The knowledge that in other countries schemes of a national character had been found to work well both in the national interest and the interest of the farmer.

### Interest Rates

With regard to the interest rates, the facts are that the average rate of interest on first mortgage loans in thirty states of the Union was  $7\frac{1}{15}$  per cent in 1915.<sup>1</sup> To this must be added legal expenses, commissions and other charges. In the different states the averages were as follows: Alabama, 8·8 per cent; Arkansas, 8·8 per cent; Arizona, 10 per cent; Illinois, 5·5 per cent; Indiana, 5·6 per cent; Iowa, 5·6 per cent; Massachusetts, 5·5 per cent; Minnesota, 6·2 per cent; Montana, 9·3 per cent; Ohio, 5·7 per cent; Oklahoma, 7·2 per cent; Pennsylvania, 5·3 per cent; Texas, 8·5 per cent; Utah, 8·7 per cent; Wisconsin, 5·6 per cent; Wyoming, 9·2 per cent. In comparison the average in Europe does not exceed 5 per cent.

Not only was there a variation between the states but just as great a variation within the individual states. In Minnesota, an extreme case, it varied from 5 per cent in the south to 9 or 10 per cent in the north. Without question these variations represented to a certain extent variations in the quality of the security. Soil and climatic conditions, the type of farming, the distance from markets, also played a part, but it was firmly believed that the public were being exploited by the money-lender especially in the new districts where there was not much competition. It was recognized that this could not be corrected by the small banks whose facilities for getting money were limited and by whom a rediscounting was absolutely necessary if considerable business was to be done.

With regard to (2), excessive costs in obtaining money, it is only necessary to say that for short term mortgage loans, two to five years, a commission of 5 per cent or over was often charged; this added to the interest rate one or two per cent. When it is added that two-fifths of the total mortgage debt is in the west north central states where the average rate is high, it seems reasonable to assume that the average interest charges of the thirty states were not far from  $8\frac{1}{2}$  per cent interest, with legal charges still remaining to be accounted for, while in many of the states it greatly exceeded that sum.

With regard to (3), the impossibility of meeting mortgage payments under the short term conditions of payment, especially by those whose original capital was small, was everywhere apparent. It is hardly necessary to repeat that mortgage payments on land at \$50 to \$75 per acre are an entirely different thing from such payments at \$10 per acre. In the latter case payments from production might be possible; in the former it would be impossible unless the mortgage was on a small percentage of the value. New methods had to be devised.

To this was added (4) the knowledge, that schemes less oppressive to the borrower, of greater security to the lender and at lower rates of interest were working well elsewhere, and this created the demand for careful consideration of the whole subject.

<sup>1</sup> Investigations made by the Rural Organization Service of the United States Government.



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A distinguished authority on agriculture, the Assistant Secretary of Agriculture in 1915 stated the matter to a body of bankers in the following terms: "I believe I am not overstating the matter when I say that a satisfactory system of Rural Credit is as necessary to the development of agriculture in the country as is a widespread application of scientific methods to agriculture. As a matter of fact, it is impossible for the farmers to make use of the latest scientific discoveries without better credit facilities." It is hardly necessary to state that the two go hand in hand.

In 1913, two commissions were sent to Europe from the United States to study and report on European methods. These were the "United States Commission" and the "American Commission on Rural Credits." The former was appointed by the United States Congress, the latter was assembled by the Southern Commercial Congress, an organization in the southern states interested especially in the industrial, commercial and agricultural development of the southern states. The reports of these commissions were published by the United States Senate and became the basis of future legislation. If I were to select one fact as impressing the American mind more profoundly than any other as the result of the studies in Europe of these commissions, I would say it was the fact of farm mortgage bonds or debentures coupled with amortization.

One observer, a member of Congress, stated this conviction thus "One of the most important discoveries in the world was the invention of the farm mortgage bond or debenture as an instrument to promote land credit. There never has been a successful system of land credit established in any country that does not use the mortgage bond or debenture as an instrument of credit to mobilize and liquefy land values. Through the mortgage bond the farm mortgage has been made easily negotiable and put in such a form that the holder may realize thereon immediately."

The result of all this agitation was the passing of a number of acts for the purpose of promoting Rural Credit. Of these, one was especially designed to promote *Long Term Mortgage Credit*, viz:—

### THE FEDERAL FARM LOAN ACT

The Federal Farm Loan Act was approved by the President of the United States on July 17th, 1916. It is described in the Act itself as an act "to provide capital for agricultural development, to create a standard form of investment based on farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create government depositories and financial agents for the United States, and for other purposes."

Under this Act, there is established at the seat of government in the Department of the Treasury, a Federal Farm Loan Bureau, under the supervision of a

### FEDERAL FARM LOAN BOARD

This Federal Farm Loan Board consists of seven members including the Secretary of the Treasury, who is Chairman, ex-officio. The remaining six members are appointed by the President of the United States, by and with the consent of the Senate. Of the six, not more than three are to be members of one political party and all must be citizens of the United States. They all devote their entire time to the work of the Board and are paid \$10,000 per annum for their services. The term of office is eight years and members are only removable for cause; they cannot be connected with any mortgage or bonding business and must certify to this under oath before appointment.

### FEDERAL LAND BANKS

Under the Act, the Federal Farm Loan Board is instructed to divide the United States, into twelve districts, to be known as Federal Land Bank districts, the districts to be apportioned with regard to the farm loan needs of the country.

In each of these districts, they are authorized to establish a Federal Land Bank "with its principal office, located in such city within a district as the Board shall designate." The name of the city in which the bank is located is included in the name of the bank. These banks are now located in the cities of Springfield, Mass., serving Maine, New Hampshire, Vermont, Massachusetts and New York; Baltimore, Md., serving Pennsylvania, Maryland, Delaware, Virginia, and West Virginia; Columbia, S. C., serving North Carolina, South Carolina, Georgia and Florida; Louisville, Ky., serving Kentucky, Indiana, Ohio and Tennessee; New Orleans, serving Louisiana, Mississippi and Alabama; St. Louis, Mo., serving Illinois, Missouri and Arkansas; St. Paul, serving Minnesota, Wisconsin, Michigan and North Dakota; Omaha, serving South Dakota, Nebraska, Iowa and Wyoming; Wichita, serving Kansas, Oklahoma, Colorado and New Mexico; Houston, serving Texas; Berkeley, serving California, Nevada, Utah and Arizona; Spokane, serving Montana, Idaho, Oregon and Washington.

Only one Federal Land Bank is allowed in each district. Each bank is a separate corporation independent in its organization and management, but is under the general supervision of the Farm Loan Board. In the case of each bank there is a directorate composed of seven persons, three of whom are elected by organizations to be described hereafter, known as National Farm Land Associations, three are appointed by the Farm Land Board and a Director-at-large, also selected by the Board from a list of three persons having the greatest number of votes cast for them by the National Farm Loan Associations.

#### Capital

When each Federal Land Bank was organized, it was organized with a capital stock of \$750,000, supplied by the Federal Government. Under the Act, this is automatically increased by five per cent on each loan made. This five per cent is derived by the compulsory sale of stock to each member of a local association who must subscribe, and pay for in cash, five per cent of the amount he desired to borrow. The capital stock, therefore, of each bank goes up and down automatically, depending upon the amount of outstanding loans.

### NATIONAL FARM LOAN ASSOCIATIONS

In each federal district, National Farm Loan Associations must be organized by persons desiring to borrow money on farm mortgage security. The persons so desiring must sign articles of association, specifying in general terms the objects for which the association is formed and the territory in which it desires to operate (generally a county). These National Farm Loan Associations thus become incorporated and are the only medium, excepting in very special cases, through which persons desiring to borrow money from the Federal Land Bank can do so. These are, in reality, local semi-co-operative associations, associations of borrowers, who become responsible for initiating all loans in their district. Only persons desiring to borrow money from a Federal Land Bank can become members of one of these associations.

A National Farm Loan Association must consist of ten or more farmers, whose joint applications for loans are not less than \$20,000. Each borrower, as



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before stated, must subscribe for stock equivalent to five per cent of the desired loan and assume a liability, in case of loss, for an additional five per cent. In other words, the local associations are double liability corporations. For example, should a borrower desire to borrow \$1,000 he must buy fifty dollars' worth of stock in the local association and become liable for an additional fifty dollars, in case of failure of members of the local association to meet their obligations. If the farmer has not the money to buy stock, it is deducted from his borrowings.

The affairs of a local association are administered entirely by officers appointed by the association itself. Each borrower has a vote for each five dollar share of stock he holds up to twenty. No one stock holder in the local association has more than twenty votes, no matter what the amount of stock he holds.

**Loans Through Agents**

In addition to making loans through the local associations, the Federal Farm Loan Act provides that a Federal Land Bank may make loans on farm lands through agents approved by the Board. Such agent must be a bank, a trust company, a mortgage company, or a savings institution, chartered by the state in which it is operating. This privilege may be taken advantage of in sections of the country where there are not enough farmers desiring loans to organize a local association. In the case of a loan through a local association it is endorsed by the association, which becomes liable to the extent of the double liability clause. In the case of an agent, however, the agent must endorse the loan and assume full liability for it. In return for this liability, the agent is allowed a certain percentage per annum on the unpaid capital. This is supposed to give to the agent a security corresponding at least to the double liability security of the association.

It will, therefore, be seen that under the Federal Farm Loan Act, loans are not made by the Federal Land Banks directly to individuals, but only to individuals applying through associations and recommended by them for loans. Every member of the association making the recommendation becomes responsible to the extent of ten per cent of his own borrowings for the total indebtedness of the association. The definite aim of the Federal Land Bank is to keep itself free from direct relationships with the individual and to force the organization, wherever possible, of the National Farm Loan Associations.

**Organization of Farm Loan Association**

The following illustration will make the process or organization clear. Let us assume that a farmer wishes to borrow the sum of \$2,000. He must get at least nine other persons in the community, the total of the borrowings asked for being not less than \$20,000, to join him in forming an association.

A meeting of the borrowers is then called and each applicant subscribes for stock to the extent of 5 per cent of the loan he desires. The law requires that five directors be elected, each member having the privilege of voting, one vote for each share of stock up to twenty shares. A directors' meeting must then be held and a president, vice-president, secretary-treasurer and loan committee of three members elected, the directors themselves not being members, of the loan committee. All officers must be members of the association, excepting the secretary-treasurer, who must be a person selected especially for his suitability for the work, very often a local bank manager. He is the only officer who receives compensation for his services. When the foregoing has been completed, the group is ready to enter into articles of association. These articles can be obtained from the Federal Land Bank. The signed articles of association



with the applications for loans are then sent to the Bank, which sends an appraiser to investigate the security carried with the loans. After this investigation, if everything is satisfactory, the decision of the Bank is forwarded with a recommendation to the Federal Farm Loan Board, which, although almost always following the advice of the Federal Land Bank, nevertheless has power to refuse the charter. When the Board grants the charter, however, it is forwarded to the association from the Federal Land Bank of its own district. When the appraisals and applications have been fully approved and the charter granted, the loans are forwarded to the secretary-treasurer of the local association, who distributes the funds according to the applications made. As has already been stated, membership in the local association is confined to actual farmers who wish to borrow on a first mortgage basis.

After an association has been formed in a district, should another person desire to become a borrower under the system, he must make application through the Secretary-Treasurer of the local association and be accepted by a two-thirds vote of the board of directors. By purchasing the amount of stock representing 5 per cent of the desired loan, he becomes a member of the association and his application is forwarded with recommendation to the Federal Land Bank of his district. An appraiser of the Farm Loan Board is then sent to pass judgment on the loan. This appraisal is submitted to the Federal Land Bank and compared with the appraisal of the local committee. It is then sent to the Farm Loan Board for approval before the loan is made. If the money is granted, the money will be forwarded to the individual from the Bank through the secretary-treasurer of the association of which he has become a member.

Non-resident landowners, landlords, land speculators, or other persons who are not bona fide farmers, are not admitted to membership in these associations, and therefore cannot borrow from these banks.

#### **Dividends on Stock**

The money paid in for stock is deposited with the Federal Land Bank as additional security for the loans, but dividends are paid upon this stock through the secretary of the association, generally at a rate equivalent to the rate of interest paid for mortgages. The association has the right to allocate a part of this for the expenses of the association. It is a custom in many of the associations to use these dividends entirely for local expenses.

#### **Amount of Loan and Interest Rate**

The maximum amount which a farmer may borrow on his farm is 50 per cent of its appraised value for agricultural purposes plus 20 per cent of the permanent insured improvements.

The interest charges of all loans are fixed by law at a maximum of 6 per cent, not, however, to exceed the interest charges paid on mortgage bonds sold by more than one per cent. For example, if the last sale of mortgage bonds was made at  $4\frac{1}{2}$  per cent then the interest charges could not exceed  $5\frac{1}{2}$  per cent. This prohibits the sale of bonds at a rate par of greater than 5 per cent.

#### **Terms of Repayment—Amortization**

All loans are repaid on an amortization basis, the borrower having the right to select the number of years for repayment, provided it is not less than five nor more than forty. The working of the amortization plan can, perhaps, be made more clear by taking an illustration. A borrower has \$1,000 at  $5\frac{1}{2}$  per cent to be repaid in half-yearly payments in  $34\frac{1}{2}$  years. To do this requires an amortization rate of one per cent in addition to the ordinary interest charges. Assuming the interest charges to be  $5\frac{1}{2}$  per cent then the charge, including amortization, would be  $6\frac{1}{2}$  per cent. Under the plan,  $6\frac{1}{2}$  per cent of the original

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loan of \$1,000 viz., \$32.50, would be collected every six months. The difference between the interest requirement of  $5\frac{1}{2}$  per cent. on the sum due at any given time and the  $6\frac{1}{2}$  per cent. on the total borrowing would be credited as an instalment on the principal. The following table will show how it would work out in this particular case:

Principal, \$1,000. Rate,  $5\frac{1}{2}$  per cent. Semi-annual Instalments, \$32.50. Final Instalment, \$32.42.

Amortization Table				Amortization Table			
No.	Interest	Principal	Balance	No.	Interest	Principal	Balance
	\$ cts.	\$ cts.	\$ cts.		\$ cts.	\$ cts.	\$ cts.
1.....	27 50	5 00	995 00	35.....	19 92	12 58	711 92
2.....	27 36	5 14	989 86	36.....	19 58	12 92	699 00
3.....	27 22	5 28	984 58	37.....	19 22	13 28	685 72
4.....	27 08	5 42	979 16	38.....	18 86	13 64	672 08
5.....	26 93	5 57	973 59	39.....	18 48	14 02	658 06
6.....	26 77	5 73	967 86	40.....	18 10	14 40	643 66
7.....	26 62	5 88	961 98	41.....	17 70	14 80	628 86
8.....	26 45	6 05	955 93	42.....	17 29	15 21	613 65
9.....	26 29	6 21	949 72	43.....	16 88	15 62	598 03
10.....	26 12	6 38	943 34	44.....	16 44	16 06	581 97
11.....	25 94	6 56	936 78	45.....	16 01	16 49	565 48
12.....	25 76	6 74	930 04	46.....	15 55	16 95	548 53
13.....	25 58	6 92	923 12	47.....	15 08	17 42	531 11
14.....	25 38	7 12	916 00	48.....	14 61	17 89	513 22
15.....	25 19	7 31	908 69	49.....	14 11	18 39	494 83
16.....	24 99	7 51	901 18	50.....	13 61	18 89	475 94
17.....	24 78	7 72	893 46	51.....	13 09	19 41	456 53
18.....	24 57	7 93	885 53	52.....	12 56	19 94	436 59
19.....	24 35	8 15	877 38	53.....	12 01	20 49	416 10
20.....	24 13	8 37	869 01	54.....	11 44	21 06	395 04
21.....	23 90	8 60	860 41	55.....	10 86	21 64	373 40
22.....	23 66	8 84	851 57	56.....	10 27	22 23	351 17
23.....	23 42	9 08	842 49	57.....	9 66	22 84	328 33
24.....	23 17	9 33	833 16	58.....	9 03	23 47	304 86
25.....	22 91	9 59	823 57	59.....	8 38	24 12	280 74
26.....	22 65	9 85	813 72	60.....	7 72	24 78	255 96
27.....	22 37	10 13	803 59	61.....	7 04	25 46	230 50
28.....	22 10	10 40	793 19	62.....	6 34	26 16	204 34
29.....	21 81	10 69	782 50	63.....	5 62	26 88	177 46
30.....	21 52	10 98	771 52	64.....	4 88	27 62	149 84
31.....	21 22	11 28	760 24	65.....	4 12	28 38	121 46
32.....	20 91	11 59	748 65	66.....	3 34	29 16	92 30
33.....	20 59	11 91	736 74	67.....	2 54	29 96	62 34
34.....	20 26	12 24	724 50	68.....	1 71	30 79	31 55
				69.....	0 87	31 55	.....

The form of note taken in this case by the bank is as follows, and it is held along with a mortgage registered against the property of the borrower:—

Loan No.....

.....19....

\$1,000.00

For value received.....promise to pay to the order of THE FEDERAL LAND BANK OF SAINT PAUL at its office in the city of St. Paul, Minnesota, the sum of

ONE THOUSAND DOLLARS

with interest at the rate of five and one-half per cent per annum, payable semi-annually in manner and form as follows:

In sixty-eight semi-annual instalments of  
THIRTY-TWO DOLLARS AND FIFTY CENTS

each, payable on the.....day of.....and.....in each year, and a final instalment of

1— $6\frac{1}{2}$

THIRTY-TWO DOLLARS AND FORTY-TWO CENTS

payable on the.....day of.....19.... unless this note shall be sooner matured by extra payments on account of principal, such method of payment being on the amortization plan and in accordance with the amortization tables printed on the back hereof which are hereby accepted and made a part of this note. Extra payments can only be made on the regular instalment due dates. This note is secured by real estate mortgage of even date herewith.

If default is made in the payment of an instalment or instalments as herein provided, the same shall bear simple interest from the date of such default at the rate of eight per cent per annum, as provided by the Federal Farm Loan Act.

If default be made in the payment of any instalment or instalments of this note, or if default be made in respect to any condition or covenant contained in the mortgage which secures the payment hereof, then the entire principal of this note remaining at that time unpaid, together with the accrued interest shall, at the option of the holder hereof, become immediately due and payable.

Under the Farm Loan Act, however, the borrower has the right after five years to repay at any interest payment date such additional instalments of the principal as he may desire.

Section 9 of subsection 12 of the Act, which reads as follows, defines the position of the borrower in relation to defaulted payments and other legal charges:—

“Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments, which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.”

Type of Security

Loans are made only on first mortgages on farm lands and the purposes to which the proceeds of the loan may be put are defined in the Act, as follows:—

“To provide for the purchase of land for agricultural uses.

“To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm. The term “equipment” to be defined by the Federal Farm Loan Board.

“To provide buildings and for the improvement of farm lands, the term “improvement” to be defined by the Federal Farm Loan Board.

“To liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first local farm loan association established in or for the county in which the land mortgaged is situated, or indebtedness subsequently incurred for purposes mentioned in this section.”

The term “equipment” has been defined by the Farm Loan Board to include “the implements needed in the conduct of a farm to facilitate its operations. It may consist of teams, as well as machinery, tools and like articles.



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The term "improvements" has been defined by the Federal Farm Loan Board as including "anything in the form of a beneficial structure, or any useful, permanent physical change tending to increase productive value, such as clearing, tilling, draining, fencing, building."

**Loans Limited**

In the original Act, the size of the loans was limited, viz., a minimum of \$100 and a maximum of \$10,000. In March, 1923, an amendment was passed to the law permitting a maximum of \$25,000.

**Legal Charges**

Certain charges are permitted by the Farm Loan Board to be collected by the association from borrowers as follows:—

- (1) An application fee of \$10.00 to cover cost of appraisal and the expenses of the local association.
- (2) The cost of title research.
- (3) The preparation of an abstract.
- (4) The recording of papers.

These costs will vary somewhat, depending upon the position of the title of the individual borrower. In the case of clear title, they will be small. Where there are difficulties to overcome and title to be cleared, the cost would necessarily be higher. On the other hand, there are no renewal costs, no bonuses and no recording or mortgage taxes.

**Reasons for Share Stock of Local Association**

It would appear that there were three main objects in having the purchase of stock made compulsory upon the borrowers:—

- (1) To make the local associations more careful in their appraisalment of lands and in the persons to be recommended for loans, as all the members are obligated to the extent of ten per cent of their own borrowing for mistakes made. They would thus be made more anxious to recommend loans with a reasonable appraisalment of lands and to insist upon payments of interest and amortization charges on the part of persons who might otherwise be careless.
2. As the sale of farm mortgage bonds was fixed to not exceed twenty times the capitalization of the bank, the collection of 5 per cent, in cash from the borrower for capital stock made it possible for each borrower to capitalize his own loan, so that the capital stock of the bank increases and decreases just in proportion to the amount of the loans issued.
3. To bring into the association only persons of good standing. Special enquiry is made concerning a man's standing in his community and the personal element enters into decisions regarding loans.

As previously stated the Government originally capitalized each one of the twelve Banks with a sum of \$750,000 making a total of \$9,000,000 in all. This capitalization does not receive dividends. It is really a loan by the Government without interest to the Banks. All the additional capital is raised by the sale of mortgage bonds, the amount issued not to exceed twenty times the capitalization of the bank. The additional capitalization required in order to increase the sale of the bonds is provided as stated above by the sale to the borrowers of stock representing one-twentieth of the amount they borrow. It will thus be seen that the whole organization is essentially an organization of

borrowers following the German Landschaft, as distinguished from the French Crédit Foncier, where the capital of the organization is provided by selling stock to persons seeking investments. There are no outside capitalists making dividends by means of profits. Investors are guaranteed the interest on the bonds by the Federal Land Bank. All other profits, after expenses have been paid, go into a common fund in the interest of the Bank and to pay dividends on the stock held by the borrowers. All bonds issued under this system are exempt from taxation.

### Deposits

These Federal Land Banks are not banks in the ordinary sense of the word. They are not permitted to accept deposits of current funds payable on demand, excepting from their own stock holders, nor are they permitted to do ordinary banking business; they are not allowed to loan money on mortgage, excepting through the Farm Loan Associations or under the special provision for agents in districts where there are no Farm Loan Associations; they are not permitted to demand or receive any commission of any kind not specifically authorized under the Act; they are mortgage corporations limited to acting as intermediaries between investors wishing to buy bonds and borrowers wishing to secure money on mortgage. Under the Act, however, the Secretary of the Treasury is authorized, in his discretion, upon request to the Farm Loan Board, to make deposits of federal funds for the temporary use of any Federal Land Bank out of unappropriated money in the Treasury. For such deposit the bank must pay the usual Government deposit rate and must give satisfactory security to the Treasury. A limit was originally fixed at \$6,000,000 as an aggregate for such deposits.

During the years 1919, 1920, 1921, the United States Treasury, under authorization of Congress, was permitted to purchase \$100,000,000 annually of the bonds of the Farm Loan Board the reason given being that as the Government was selling bonds in enormous quantities for war purposes it preferred to monopolize the market for the time, and so included the Farm Loan Boards' demands with its own. Without question it established a rate for the sale of the bonds.

### Sale of Bonds

At first it was arranged that each of the twelve Banks would issue its own bonds in its own market. At the same time the Farm Loan Board fixed the rate of interest to be charged at a maximum of 6 per cent, and required uniformity in rates as far as possible. It was soon seen that these two things were inconsistent with one another. Bonds offered for sale, for example, for the Bank operating in Oregon, could not meet the prices that could be obtained for bonds offered for sale for the Bank in Baltimore or in Springfield. The same general motive that causes interest rates to be higher in the West than in the East, as demanded by mortgage companies, became apparent with respect to the sale of these bonds, and that, as a common rate of interest was to be charged, it would be necessary that some common scheme for the sale of bonds should be arranged. The Act was amended, therefore, unifying the responsibility of the twelve banks for each other's issues, and making possible a central agency, under the authority of the Farm Loan Board, for the purpose of selling all the bonds issued by the various Banks. The selling agency has been organized. The head of it is one of the great bond houses of the United States with which are associated 5 others forming a Syndicate. Under this Syndicate are some 800 smaller bond houses and banks operating through approximately 8,000 selling agents, distributed in all parts of the United States. The Syndicate re-



ceives 1 per cent for selling the bonds and pays  $\frac{3}{4}$  of 1 per cent to the sub-agencies for the amounts of their sale. There is now no trouble disposing of all the bonds offered at from  $4\frac{1}{2}$  to 5 per cent interest rate for par.

In addition to the Federal Land Banks operating through the local associations, the Federal Farm Loan Act provides for the incorporation of Joint Stock Land Banks for the purpose of carrying on mortgage business through the issuing of farm loan bonds. These are private corporations, although definite limitation is placed by the Act upon their activities. These banks may be organized by ten or more persons forming themselves into a corporation. They must have a subscribed capital of not less than \$250,000, half of which must be paid in in cash, the balance subject to call by the Board of Directors. Their charter is issued by the Federal Farm Loan Board on their complying with these conditions, just as in the case of the Federal Land Banks. They are not allowed to issue bonds until their entire capital stock is paid up.

Further, they are exempt from certain of the provisions laid down in respect to the Federal Land Banks; for example, they are freed from the control of the Farm Loan Board with respect to revisions and alterations of interest rates from time to time, and with respect to the nature of the mortgage. They are also permitted to make loans for purposes other than the purposes defined for the Federal Land Bank, and may operate outside a fixed district. They are allowed also to lend larger amounts than the Federal Land Banks, the limit being \$37,500 for Banks with a capitalization of \$250,000 and \$50,000 for those with larger capital. On the other hand, instead of being permitted, as in the case of the Federal Land Banks, to issue bonds aggregating twenty times their paid-up capital, they are not permitted to issue bonds to exceed fifteen times their paid-up capital and surplus, nor are they aided by grants directly made from the Treasury of the United States. It was intended apparently in the creation of these banks to provide a method of securing farm loans based on a security slightly different from that which the Federal Land Bank was authorized to accept and to trust to the initiative of private enterprise to take risks that could not be permitted under the Federal Farm Loan System. These profit-making institutions were, therefore, created with rather strictly defined modes of operating to enable loans to reach persons who could not be reached by a Federal Land Bank. They may lend to individuals. They function in a slightly different way from the Federal Land Banks, and on the whole are charging higher rates of interest, and, in all probability, taking risks which, as a private enterprise, they feel they can afford to take. They correspond somewhat to the *Crédit Foncier*.

Since their inauguration, seven years ago, the business of the Federal Land Banks has had a very rapid development.

On February 29, 1924, the Assets of the Federal Land Bank System stood at.	\$936,694,908.00
Mortgage Loans had been made valued at. . . . .	832,202,914.00
While the total capital stock was. . . . .	44,684,777.00
Of this amount there had been collected from National Farm Loan Associations. . . . .	42,432,667.00
In addition there had been paid back into the United States Treasury of the original loan of \$9,000,000 for capitalizing the twelve Banks. . . . .	7,014,000.00
Dividends had been paid to the National Farm Loan Associations of. . . . .	8,828,173.00
And there is a total Reserve and Undivided Profits of. . . . .	7,814,341.00
During the months of January and February, 1924, loans were made to the extent of. . . . .	35,378,000.00
Farm Loan Bonds were outstanding to the amount of. . . . .	865,206,665.00



The loan was distributed to the various banks of the system as follows:—

Springfield.. . . .	\$ 30,967,968.00
Baltimore.. . . .	41,853,691.00
Columbia.. . . .	52,292,055.00
Louisville.. . . .	78,981,846.00
New Orleans.. . . .	74,885,917.00
St. Louis.. . . .	60,233,912.00
St. Paul.. . . .	104,154,746.00
Omaha.. . . .	97,417,171.00
Wichita.. . . .	73,690,608.00
Houston.. . . .	93,516,680.00
Berkeley.. . . .	36,254,955.00
Spokane.. . . .	87,908,359.00

Every state in the Union and Porto Rico have received financial assistance through these banks the amount varying from \$254,200 for Delaware to \$93,516,680 for Texas. Broadly speaking, the Western States and the newer States on the southwest have benefited most.

#### Growth of Business—The Joint Stock Land Banks

The Joint Stock Land Banks, under the Federal Farm Loan Board, have been very keen rivals of the Federal Land Banks as the following figures given below will show.

Eighty of these Joint Stock Land Banks have organized since the system began operation.

On February 29, 1924, their assets stood at.. . . .	\$438,397,336.00
They had capital stock paid in to the amount of.. . . .	34,233,520.00
There were outstanding mortgage loans to the amount of.. . . .	400,988,343.00
They had Farm Loan Bonds outstanding to the amount of.. . . .	368,176,900.00

Combining the figures Federal Land Banks and the Joint Stock Banks they show the number of loans made from beginning to be 351,183 and the amount of loans made from beginning, \$1,318,843,548.

As the total outstanding farm mortgages indebtedness of the United States is now approximately \$8,000,000,000 it will be seen that the Banks operating under the Farm Loan Board now hold about 16½ per cent of the whole. The loans under the system will have to increase materially before the 40 per cent ratio of Germany will be reached. There can be no doubt, however, but that there has already been a regulatory influence on interest rates.

One further word with regard to the Federal Farm Loan Association. Approximately 5,000 of these have been organized in the United States and through these have been issued the major part of the loans under the Federal Land Banks as distinguishd from the Joint Stock Banks. As previously stated, the object of organizing these local associations was to create a spirit of co-operation among the farmers and to ensure that the administration of the whole system should ultimately be in the hands of the borrowers themselves and not, as in the Joint Stock Company Banks, in the hands of private individuals for the purpose of making profit. I found a good deal of difference of opinion as to the value of these associations, depending, I think, to a considerable extent, upon the temperament of the management of the Land Bank. For example, one bank president quite openly stated that he did not believe that the local associations were of any real value, that the persons in them did not co-operate, that at times it was difficult to get them to meet, in order to pass upon loans that were urgent, and, on the whole, he would prefer to deal with the individuals through the other appointed agencies allowed under the Federal Farm Loan Act. On the other hand, other bank presidents were strongly in favour of the local association, but I found in such cases they had been spend-

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ing a good deal of time trying to bring about a spirit of co-operation among the borrowers and were convinced that as the days went by these associations would become a strong conservative influence in maintaining the integrity of the Bank. In the beginning, there was a disposition on the part of the local association members to over-value their property, having, doubtless, the feeling that it was government money they were using and, therefore, were disposed to take as much as would be allowed. This, I was informed, very rapidly disappeared when they began to realize that, in case of loss, they would be called upon under the double liability clause, so that, with the passing of years and a better understanding, these local associations are becoming helpful, not only in their own communities, but helpful also in relation to the Bank.

The two things that stand out as having been definitely accomplished by the Federal Farm Loan system are:—

(1) Equalization of interest, viz., a maximum of six per cent. from the Atlantic to the Pacific. This was only made possible by the establishment of mutual responsibility between all twelve banks and the fact that the scheme being under the supervision of the Federal Farm Loan Board gave confidence to the investing public.

(2) The second is the firm establishment under this system of the principle of amortization of farm loans. It seems worth repeating a statement previously made that the scheme of amortization would not have been valuable in the days when there was plenty of cheap land and farmers could move easily from one place to another for purposes of settlement. Under these circumstances, it might be possible by means of production, in a short period of years, to repay mortgages raised on land at these cheap valuations, but with the increasing valuation of land, the increased capital investment necessary for the purchase of a farm, the old system of short mortgage made the redeeming of a mortgage impossible out of farm production and the United States farmers found themselves in exactly the same position that the farmers of Europe found themselves in one hundred years ago. The establishment of this principle without question will enormously strengthen the position of the American farmer in competition with Europe.

On the other hand, I think it is wise to point out that the Federal Farm Loan scheme was conceived as a business scheme intended to be self-supporting and ultimately free from any lien upon the Government. The result is loans have only been made where the security was of a class to warrant the loan, and under very rigid terms. While the advantage of interest rates and of amortization were made available to the farmers, there was no slackening in the demand for a proper security for the money loaned. This, in my judgment, is the real reason why the Federal Land Banks of the north-western states have not been able to meet the financial needs of these communities. In parts of these states, at least, a condition of affairs has been reached with regard to income from land that makes it impossible for money to be loaned by the Federal Land Banks or any other bank with the security which the law demands. I feel confident that the major part of the complaints made, and there are many, against the operation of the Federal Land Banks, is due to the fact that they have refused to make loans of money against properties that could not offer sufficient security. In other words they have refused to become philanthropic institutions.

## 2. Short Term and Intermediate Credit

Before entering into a discussion of the organization of the Federal Intermediate Credit Banks, it seems necessary to look broadly at the way the problem of Short Term Credits for Agriculture has been faced in the United States. As stated previously, the agitation for a better scheme of rural credits



involving both mortgage credit and short term credit began many years ago. In fact, the whole movement for the establishment and maintenance of small State Banks had behind it the desire to take advantage of the commercial opportunities which agriculture offered, and, at the same time, to provide better facilities for agricultural credit. An illustration of this can be seen in the Bank Law of the State of Kansas, passed in 1897, which grew out of the agitation which followed the period of depression from 1891 to 1895. The objects and methods of the System, as set forth by one of its authors, is as follows:—

- (1) To finance the farm efficiently.
- (2) To oversee the investment of money in farms so that it would be made productive.
- (3) To supervise the farming operations of the borrower so as to ensure profitable return.
- (4) To compel the majority of the directors of the bank to live at the place where the bank is located.
- (5) To make the capital small so that it could be put in rural communities, yet having the competition of nearby banks.

It was believed that, with proper local organization and oversight, risks could be taken on individuals which a large bank, without the local knowledge could not afford to take. These banks were deposit banks only, and aimed at using the local capital available in the development of the local community. That these banks have flourished side by side with national and private banks, there is no doubt, and their local intimate relation to the local community has been of immense value. Similar statements could be made with regard to the other State Banking Systems, at least as operated in most of the Western States of America.

The whole matter was brought into prominence again during the crisis of 1907 when so many of the small banks of the United States closed their doors. This was due largely to the absence of a plan by which the banks in the country could adjust themselves in relation to each other. Corresponding to the agitation which led ultimately to the establishment of the Federal Farm Loan Board, there was also an agitation for the securing of better facilities through which capital might flow from one part of the country to another in times of stress. In 1909 a Monetary Commission was appointed by the United States which, after a very intensive study of banking methods in other countries, ultimately brought about the system known as "The Federal Reserve System." It was felt at that time that the scheme of small banks scattered throughout the country, of which there were nearly 30,000, was very effective, in so far as they related to the local community in which they operated. The absence of some centralizing agency was very severely felt, however, especially in times of depression. A competent authority has stated these difficulties as follows:—

- (1) Decentralization.
- (2) Inelasticity of credit.
- (3) A cumbersome exchange and transfer system.
- (4) Defective organization as regards relation to the Federal Treasury.

With regard to the first of these, it will be only necessary to point out that the 30,000 banks, each with its cash reserve without any exchange relations other than through the Clearing House, made the flow of capital from one part of the country to another almost impossible, and, as few of these banks had any definite relation to the Treasury, even Government help in emergency times was unavailable.

The Federal Reserve Act which was approved December 23rd, 1913, aimed at overcoming these difficulties. It provided for the establishment of twelve



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Federal Reserve Banks, each to operate in one of the twelve Federal Reserve Districts into which the country was divided. In determining the boundaries of these districts, regard was had to the convenience and customary course of the business of the country. Each district was made large enough to provide for the operation of a bank with a minimum capital of \$4,000,000. Under the scheme all National banks were required to become members of the System, and State Banks and Trust Companies, which complied with certain provisions laid down by the law, were encouraged to join. Member banks were required to subscribe to the capital stock of the Federal Reserve Bank in their district to an amount equal to 6 per cent of the member bank's capital and surplus.

Only a portion of this has yet been called up, but on November 21st, 1923, the total capital paid into these banks amounted to \$110,103,000.

Less than a quarter of the banks of the United States have become members of the Federal Reserve System, but this represents approximately 50 per cent of the total capitalization of the banks of the United States.

Each of the twelve Federal Reserve Banks is managed by a Board of Directors elected from the member banks by a special method devised to be equitable, and are, therefore, democratic in their management.

Above these twelve banks is a central board at Washington known as "The Federal Reserve Board." This Board consists of seven members, including the Secretary of the Treasury, the Comptroller of Currency and five appointed by the President of the United States with the advice and consent of the Senate. In addition, there is a Federal Advisory Council consisting of twelve members appointed by the Board of Directors of the twelve Federal Reserve Banks. The Federal Reserve Board appoints three of the nine directors of each of the Federal Reserve Banks, while in turn each Federal Reserve Bank appoints a member of the Federal Advisory Council, the object being to give complete inter-communication of ideas within the whole system.

Every bank, or banking association, belonging to the Federal Reserve System is required to maintain its entire legal reserve in the form of a deposit in the Federal Reserve Bank of its district. The Federal Reserve Law recognizes only one form of legal reserve, that is, a member bank's deposit in its Federal Reserve Bank. They may keep balances in other banks, but their legal reserve, the reserve which the Government looks upon as the minimum below which the public interest demands that banks should not go, must all be kept on deposit in the Federal Reserve Banks, which thus become the reservoir of the reserve money of the nation. The great purpose to be served by this is that the reserves are so mobilized in the centre of great districts that they are available at points in the country where the demand is greatest for them, the Federal Reserve Banks being permitted to re-discount for one another and for all the member banks of the system.

Much discussion has taken place with regard to the relation of the Federal Reserve to agricultural credit. It is sufficient for our purpose to say that the Federal Reserve Bank, as the other general institutions described in this report, does not do business either directly with individual farmers or with individuals in any other walk of life. The Federal Reserve scheme presupposes that the farmer or other person borrows through his local bank, which, if they are members of the Federal Reserve system, may, in turn, rediscount with the Federal Reserve Bank, the paper received from customers. The Federal Reserve Act places certain limitations on the character of the paper to be discounted, but in reality, as amended in 1919 and 1923, special provision is made for its banks providing a short term credit for agricultural purpose. For example, any Federal Reserve Bank may discount "notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes." The law does not permit the

reserve banks to discount paper, the proceeds of which are to be loaned to some other borrower, or to be used for current investment or for speculation.

"Agricultural paper is given by the Act an important advantage over commercial paper, since the latter can be discounted only for a period not exceeding 90 days, while paper which is issued or drawn for an agricultural purpose, or is based on live stock, may now be discounted by Federal Reserve Banks even though it has nine months to run from the date of discount. The Federal Reserve Board has made appropriate provision for this in its new regulations in which the definition of agricultural paper has been clarified and broadened so as to incorporate the latest and most liberal principles adopted by the Board in determining what constitutes agricultural paper. Nine months' paper will thus be eligible for discount if the proceeds have been or are to be used by a farmer in any one or more of the steps of planting, cultivating, harvesting, or marketing a crop, or of breeding, fattening, or marketing live stock, and the Federal Reserve Board has held that the marketing of crops or live stock includes carrying them for a reasonable time in order to market them in an orderly manner instead of dumping large quantities on the market at one time in order to get money with which to meet current expenses. Under this provision of the law, member banks which have loaned money for nine months to wheat growers and other farmers for the purpose of raising, carrying, and marketing their crops, will be able to rediscount the farmers' notes with the Federal Reserve Banks."

Further, under the Federal Reserve Act, as amended by the Agricultural Credits Act passed March 4th, 1923, co-operative marketing associations can issue paper which is eligible for discount with maturities up to nine months, if the proceeds of the paper are advanced to members of the association for an agricultural purpose, or are used to pay members for agricultural products delivered to the association, or to finance the association in packing, preparing for market, or marketing products grown by its members. Co-operative marketing associations are permitted to borrow money to be loaned to the individual members of the association under certain restricted conditions. In all cases, credit for agriculture is extended to nine months instead of ninety days, the assumption being that the local bank holds the paper for three months and it is carried by the Federal Reserve Bank for the additional six months. Further, as amended in 1923, the Federal Reserve Banks are permitted to discount sight or demand drafts drawn to finance shipment within the country of nonperishable and readily marketable agricultural products. A limit, however, of ninety days is placed upon such paper. In order to extend the credit facilities of the Federal Reserve System to smaller banks under the Agricultural Credits Act of 1923, provision was made to admit small banks whose capital was 60% of the original requirement, provided that within a given time the capital was built up to the necessary requirement under the Act, and for this purpose such banks were authorized to set aside 20% of their earned income for the purpose of increasing the capital to the necessary standard.

The most important provision, however, of the Federal Reserve Act, insofar as it affected farm loans, was the authorization given to national banks to make loans for a period up to five years secured by land mortgage. I have referred to this previously in discussing the question of the national banks. This was only made possible to the national banks through the Federal Reserve System. The farmers who need long time loans, therefore, can borrow for five years from the national banks on the security of their farm lands, and the Federal Reserve Board has provided in its regulations that at maturity such loans may be renewed for an additional five years, although a national bank is not permitted to obligate itself in advance. I think there can be no doubt that the Federal Reserve System sought to live up to its responsibilities in connection with short term loans to



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farmers. When the prices fell for farm products in 1920, they immediately began to increase their loans through the members of the system to help steady agricultural conditions.

For example, it was many months after the great price decline began before the loans made from the bank in Minneapolis to the northwest farmers reached its peak. During the period from March to November, 1920, there was more than \$30,000,000 increase in loans made under the system in the country centering on Minneapolis, and at the end of the period, loans had reached the sum of \$115,000,000. During the same period the Federal Reserve Banks, located in agricultural districts, increased their loans by more than \$500,000,000 and their issues of Federal Reserve notes by a nearly equal amount.

There were two principal causes why the Federal Reserve System did not satisfy the demands of the agricultural districts.

(1) Because a large percentage of the small state banks which do business with the farmers did not become members of the Federal Reserve System, and, therefore, were not able to get the required discounting privilege.

(2) Because the length of time for which the rediscounting privilege was allowed was too short to satisfy the farmer's requirements.

The former was the fault of the small banks; the latter, if a fault, the fault of the law itself and not of the administration.

It was because of these circumstances that the agitation took place which brought about the foundation of the Federal Intermediate Credit Banks described on the following pages.

### THE FEDERAL INTERMEDIATE CREDIT BANKS

The Intermediate Credit Banks were organized for the purpose of providing credit for periods longer than granted by ordinary banking operations. They were intended to cover what was spoken of as the barren area of credit between the three to six months provided under the Federal Reserve System and the minimum mortgage term. The Act creating them calls for loans between the period of six months and three years. The Act was passed in the closing days of the 67th Congress, March, 1923. As the transactions of the Intermediate Credit Banks are real banking transactions as distinguished from mortgage transactions, their operations are merely time extensions of the ordinary banking systems of the country, but related specifically to the service of agriculture. It would appear for that reason that they might have functioned more easily under the Federal Reserve System and the reason for not so doing is not quite apparent. They are associated, however, with the Federal Land Bank scheme and under the direction of the Federal Farm Loan Board. Perhaps the chief advantage of this arrangement is the fact that they will be making banking loans to the same people who will be taking mortgages under the Federal Land Banks and there will be some advantage in having the same persons supervising and determining upon credits to be granted for current account that have already dealt with the individuals from the point of view of capital loans. From information which I obtained I concluded that that was the chief advantage of the connection with the Federal Land Banks and perhaps the further reason that the Federal Reserve Board wishes to disassociate itself entirely from the operation of loans made for a longer period than the ordinary term allowed to the Federal Reserve Banks.

Under the Act creating the Intermediate Banks, the Farm Loan Board is given power to grant charters to twelve institutions to be known as Federal Intermediate Credit Banks. It instructed the Board to establish these institutions in the same cities as the twelve Federal Land Banks. The officers and directors of the Federal Land Banks were made ex-officio officers and directors of the several



Federal Intermediate Credit Banks. Such officers were given authority to create the necessary machinery and employ the necessary officers for conducting the business of the Bank as a separate organization from the Federal Land Bank. These Banks were given authority to act as fiscal agents for the United States Government and to perform such duties as the Secretary of the Treasury may prescribe. Accordingly, acting under the authority of the charter, twelve separate institutions were founded in the summer of 1923.

### **Capital Stock**

In order that capital might be provided for the business of these Banks, the United States Government was authorized to subscribe capital stock to the extent of \$5,000,000 for each bank and the Secretary of the Treasury was given authority to take up such portion of this stock as might be deemed necessary at any given time. This gave a possible capitalization of \$60,000,000 subscribed by the Treasury. On the organization of the banks, the Treasury took up one million dollars capital stock of each of the banks, holding the balance of \$4,000,000 in reserve to be taken as needed.

The Federal Farm Loan Board was authorized to apportion the joint expenses incurred in behalf of the Federal Land Banks, the Joint Stock Land Banks and the Federal Intermediate Credit Banks, all under their jurisdiction, among the three institutions. After all the necessary expenses are paid, it is provided that the net earnings shall be divided in equal parts, one-half to be paid into the United States treasury and the balance into the surplus fund until the amount of such surplus shall be equal to the subscribed capital stock of the bank. After this has been accomplished, ten per cent only of the earnings is paid into this surplus, the balance being paid to the United States as a franchise tax. The monies paid from earnings into the United States treasury are to be used at the discretion of the Secretary of the Treasury, either to supplement the gold reserve held against outstanding United States notes, or to be applied to the reduction of the outstanding bonded indebtedness of the United States. Should a bank be dissolved, its whole assets become the property of the United States.

### **Debentures**

Under the Act, each Federal Intermediate Credit Bank is allowed to issue debentures up to ten times the original paid up capital and the surplus of the bank. As the original capitalization of the twelve banks was \$60,000,000, when fully in operation, they could issue debentures for \$600,000,000, making a total available capitalization when the stock is fully paid up of \$660,000,000. It is provided, however, that the issue of debentures shall be subject to the approval of the Federal Farm Loan Board and no debenture is to be issued for a period of longer than five years and only as against cash or discounted paper held by the Bank. The rate of interest on debentures was fixed, at most not exceeding six per cent.

### **No Government Liability**

It is specially provided that the United States Government shall assume no liability, direct or indirect, for any debentures or other obligations issued under the authority of the Act. To make this absolutely clear, provision is made that all debentures or other obligations shall contain in "conspicuous and appropriate language" a definite statement that there is no liability upon the treasury of the United States.

### **Rate of Interest**

With regard to the rate of interest charged, definite restrictions are placed upon it. The maximum rate at which debentures may be issued is fixed at six

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per cent, although the Farm Loan Board is given the power to determine whether it shall be lower than that, while the Bank itself must not charge a rate of discount of more than one per cent in excess of the late debenture issued. This fixes a maximum of seven per cent on discounted paper. In discounting paper for such organizations as shall be described hereafter, the Federal Intermediate Credit Bank is not permitted to discount for any borrower who charges a rate of interest of more than one-half of one per cent above the discount rate fixed by the Intermediate Credit Bank. The Bank is permitted to purchase in the open market at par, or below, its own debentures before maturity.

**Discounting Privileges**

These Banks are allowed a very considerable discretion in the matter of bank business. For example, they are allowed to discount for or purchase from any National Bank or any State Bank, trust company, agricultural credit corporation (hereafter described) incorporated live stock loan company, savings institutions, co-operative bank, co-operative credit or mortgage association of agricultural producers, organized under the laws of any State, with their endorsement, any note, draft, bill of exchange, etc., or other such obligation, the proceeds of which have been advanced in the first instance for any agricultural purpose or for the raising, breeding, fattening or mortgaging of live stock.

They are further authorized to make loans or advances direct to any co-operative association organized under the laws of any state and composed of persons engaged in producing, or producing and marketing staple agricultural products or live stock, if the notes or other such obligations representing the loans are secured by warehouse receipts, or shipping documents, or both, covering such products, or mortgages on live stock, provided that the loan does not exceed 75 per cent of the market value of the product. The only restriction placed upon the amount of such discounted paper which the Federal Intermediate Bank can hold is the limitation (1st) of its own capitalization, and (2nd) no institution can rediscount for more than twice the amount of its unimpaired capital and surplus.

**Mutual Liability**

As in the case of the Federal Land Banks, mutual liability is established as between the twelve Banks. Clearly, the purpose of this is to enable the banks to secure equal credit facilities in the money markets of the country. This liability is set out in Section 207 of the Act, as follows:—

“That any Federal Intermediate Credit Bank issuing debentures or other such obligations under this title shall be primarily liable therefor, and shall also be liable, upon presentation of the coupons for interest payments due upon any such debentures or obligations issued by any other Federal Intermediate Credit Bank and remaining unpaid in consequence of the default of the other Federal Intermediate Credit Bank. Any Federal Intermediate Credit Bank shall likewise be liable for such portion of the principal of debentures or obligations so issued as are not paid after the assets of such other Federal Intermediate Credit Bank have been liquidated and distributed. Such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent Federal Intermediate Credit Banks liable therefor in proportion to the amount of capital stock, surplus, and debentures or other such obligations which each may have outstanding at the time of such assessment. Every Federal Intermediate Credit Bank shall, by appropriate action of its board of directors duly recorded in its minutes, obligate itself to become liable on debentures and other such obligations as provided in this section.”



The tax exemption privilege accorded to debentures issued under the Federal Land Banks is also granted to the debentures issued under the Federal Intermediate Credit Banks. This is set forth in Section 210 of the Act, as follows:—

“That the privileges of tax exemption accorded under Section 26 of this Act shall apply also to each Federal Intermediate Credit Bank, including its capital, reserve or surplus, and the income derived therefrom, and the debentures issued under this title shall be deemed and held to be instrumentalities of the Government and shall enjoy the same tax exemptions as are accorded farm loan bonds in said section.”

The scheme of the Federal Intermediate Credit Banks in regard to the individual borrower is identical with that under the Federal Land Banks, that is to say, no individual can have direct access for borrowing purposes to the Bank. All loans made must be rediscounted loans made to a responsible corporation which in itself assumes responsibility for the payment of the loan, so that a borrower must find his way to the Federal Intermediate Credit Bank through other organized financial machinery. In order to make comprehensive machinery for this purpose, the Act authorizes the creating of

#### NATIONAL AGRICULTURAL CREDIT CORPORATIONS

These are organizations corresponding to the local associations under the Federal Land Bank. These National Agricultural Credit Corporations, however, are much more highly organized institutions than the local associations under the Federal Land Banks.

The manner of the formation of these organizations is described in the Act as follows: “That corporations for the purpose of providing credit facilities for the agricultural and live stock industries of the United States, to be known as National Agricultural Credit Corporation, may be formed by any number of natural persons, not less in any case than five. Such persons shall enter into articles of association which shall specify the object for which the corporation is formed. Such articles of association shall be signed by the persons intending to participate in the organization of the corporation and be forwarded to the Comptroller of the Currency to be filed and preserved in his office.”

The organization certificate and the articles of association must be acknowledged before some judge of a court of record or notary public before submission to the Comptroller of the Currency for approval. On the approval of the Comptroller of the Currency, such an association becomes a corporate body with well defined powers in relation to financial operations. For example, they are allowed:—

(1) To make advances upon, to discount, rediscount, or purchase and to sell or negotiate, with or without its endorsement of guarantee, notes, drafts, or bills of exchange and to accept drafts or bills of exchange, which (a) are issued or drawn for an agricultural purpose or the proceeds of which have been or are to be used for agricultural purposes, (b) having a maturity at the time of discount, purchase, or acceptance not exceeding nine months, and (c) are secured at the time of discount, purchase or acceptance by warehouse receipts or other like documents, conveying the title to non-perishable and readily marketable agricultural products, or other instruments of like guarantee.

(2) To make advances upon, or to discount, rediscount, or purchase and to sell or negotiate with or without its endorsement or guarantee, notes secured by chattel mortgages, conferring on first lien upon maturing, or breeding live stock or dairy herds and having a maturity at the time of discount, rediscount, or purchase not exceeding three years.



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(3) To subscribe for, acquire, own, buy, sell and otherwise deal in treasury certificates of indebtedness, bonds or other obligations of the United States to such extent as its board of directors may determine.

(4) To act when requested by the Secretary of the Treasury as a fiscal agent of the United States and to perform such services as the Secretary of the Treasury may require in connection with the issue, sale, redemption or re-purchase of bonds, notes, treasury certificates or other obligations of the United States.

There is much additional authority given for conducting ordinary business, but the most outstanding one is their right, subject to regulation of the Comptroller of the Currency, to issue collateral trust notes or debentures with maturity not exceeding three years and to pledge as security for such notes or debentures financial paper held by the corporation. It is specially stated, however, that "the United States Government shall assume no liability direct or indirect for any debentures or other obligation issued under this title and all such debentures and other obligations shall contain in conspicuous and appropriate language to be prescribed in form and substance by the Comptroller of the Currency and approved by the Secretary of the Treasury, a clear indication that no such liability is assumed."

### Capital Stock

The National Agricultural Credit Corporation is not permitted to do business until it has paid up capital of \$250,000; which must represent at least 50 per cent of the authorized capital stock of the corporation. The remaining 50 per cent must be paid within six months after the beginning of business. Such a corporation is allowed to make loans to the extent of ten times its paid up capital.

### Rate of Interest

With regard to interest rates, it must submit to the laws of the state in which the corporation is located. A special penalty is imposed, should at any time, or by any means, direct or indirect, a rate of interest be charged greater than that allowed by the State law. If this is knowingly done, the corporation forfeits the entire interest of the debt and has no power of collection and, further, the person who was charged the interest, if paid, has the right to recover in action twice the amount of the interest thus paid to the corporation, provided legal action is commenced within two years—a very definite and rigid provision.

I think sufficient has been said to show that the National Agricultural Credit Corporations are intended to occupy a very large place in the financing of agriculture. While they function through the Federal Intermediate Credit Banks and constitute an intermediary between the bank and the individual, they differ entirely from the local associations under the Federal Land Bank in that they are private corporations for profit-making purposes, doing business for agriculture under certain definite restrictions with regard to interest charges and security placed upon them by the Treasury of the United States.

### Credit Corporations Formed by Banks

There is one special provision to which, perhaps, attention should be called, viz., that any particular bank of the Federal Reserve System may file application with the Comptroller of the Currency for permission to invest an amount not exceeding in the aggregate ten per cent of its capital stock and surplus in the stock of one or more of the National Agricultural Credit Corporations. As a matter of fact, while it may have been intended originally that these corporations should be corporations formed from among the larger producers on the land

and local financial men, in many localities the banks have taken the initiative in their organization, the reason for this probably being that while the banks themselves are only permitted to rediscount with the Federal Intermediate Credit Banks up to twice their paid up capital and surplus, these institutions are permitted to re-discount up to ten times their paid up capital and surplus. The debentures issued by these corporations are not free from taxation, but are subject to the laws of the state in which they operate.

There has not yet been time to determine to what extent these institutions will function as practical institutions. So far as I know the only ones operating were organized through the agency of the banks for the purpose above mentioned.

The twelve Federal Intermediate Credit Banks were promptly organized after the passage of the Act, March, 1923. The following figures will show how far they have functioned as business organizations. The statements are as at February 29, 1924.

Direct loans and discounts have been made to the amount of.	\$41,409,368.00
This amount was loaned out at the banking centres as follows:—	
Springfield.. . . .	\$ 627,950.00
Baltimore.. . . .	6,511,150.00
Columbia.. . . .	4,683,355.00
Louisville.. . . .	2,210,406.00
New Orleans.. . . .	6,164,816.00
St. Louis.. . . .	1,176,607.00
St. Paul.. . . .	2,659,620.00
Omaha.. . . .	3,262,258.00
Wichita.. . . .	4,465,676.00
Houston.. . . .	3,433,177.00
Berkeley.. . . .	5,061,240.00
Spokane.. . . .	1,163,107.00
These banks had outstanding on the same date debentures amounting to.. . . .	31,750,000.00

These debentures are short term debentures and are sold generally to banks for short time investments. The price so far has been good, as the Government capitalization of \$60,000,000 gives them special security. No one can foretell what would happen should their sale greatly exceed that amount. It is difficult to say what the future has in store for them, as the lengthening of the Federal Reserve discount time to nine months may greatly interfere with their development.

### War Finance Corporation

In the foregoing I have not discussed the operation of the War Finance Corporation, which, by assisting the small banks, and co-operative organizations and Live Stock Loan Companies, has co-operated in carrying agriculture for the past few years. It is not part of the permanent financial system of the country. It was intended to close its operations on the 1st of February, 1924, but because of agricultural conditions in the Northwestern States, Congress recently extended its life until 31st December, 1924. The figures in connection with its work will, however, be of significance as during its existence it has been a very great assistance in financing agriculture.

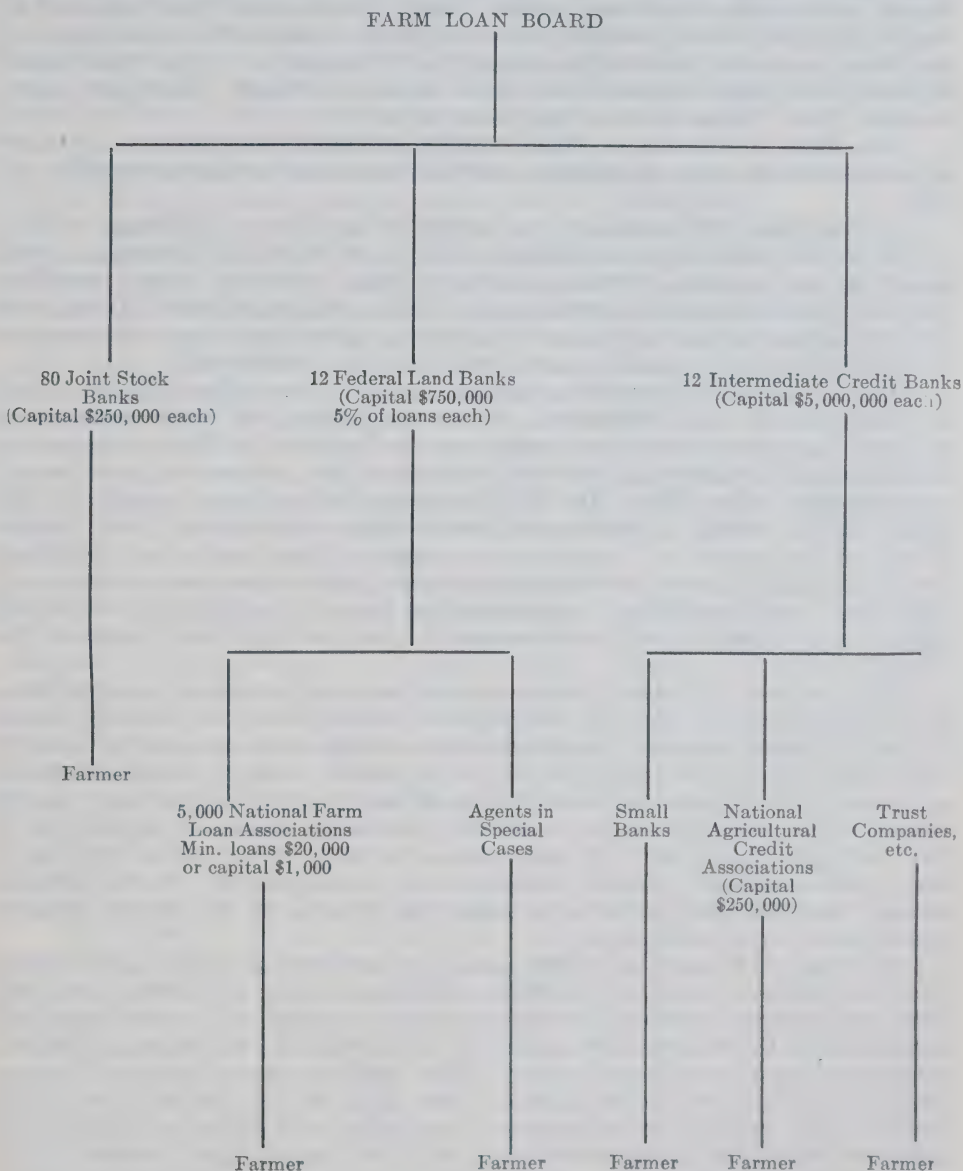
From the time authority to make loans to agriculture was granted in August, 1921 to November 20, 1923, advances in the interest of agriculture were made as follows:

To banking and financial liabilities.. . . .	\$169,708,000
To Live Stock Loan Companies.. . . .	80,096,000
To Co-operative Marketing Associations.. . . .	37,936,000
Making a total of.. . . .	287,740,000
Of this there has been repaid.. . . .	211,345,000
Outstanding.. . . .	76,395,000

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Like all the other institutions described, the War Finance Corporation acts only through organized financial institutions.

The following diagram shows the relation of the various institutions to the Farm Loan Board and to each other, with the minimum capitalization. Tracing backward, it also shows the steps through which the application of the borrower must go to secure final action. It will be seen that except in the case of the Joint Stock Banks which are private institutions under special regulations, the farmer only gets access to the lending authority through local organizations.





### Rural Credits by State Governments

In addition to the provisions made, as set forth in the foregoing under the Federal Government, many of the State governments of the United States have arranged for mortgage loans, some of these making provisions to raise money by debentures and others authorizing the State Treasury to make loans from special funds, generally from the permanent educational funds of the state.

The States of Idaho, Indiana, Iowa, North Dakota, Oklahoma, Oregon, South Dakota and Utah have made provision in their constitutions for loaning money to farmers on mortgage credit. Most of these make their loans out of certain specified funds, generally, however, the permanent educational funds of the State, or monies derived from the sale of State lands. Considerable sums of money have been lent out under these various provisions. There are a few, however, that I think deserve special mention.

The State of Arizona, in 1915, passed a law authorizing loans to be made in farm mortgages from the moneys secured from the sale of lands owned by the State.

A State Land Settlement Act was passed in the State of California in 1917, having for its purpose "the permitting of closer agricultural settlement, assisting deserving and qualified persons to acquire small improved farms, providing homes for farm labourers, increasing opportunities under the Federal Farm Loan Act and demonstrating the value of adequate capital and organized direction in subdividing and preparing agricultural land for settlement."

Perhaps the most conspicuous examples of this sort of effort are to be found in South Dakota and Minnesota. In South Dakota, the State constitution provides that permanent school funds may be invested in first mortgages on farm lands and, under this provision, over six million dollars had been loaned on mortgages before 1912. In 1917, however, the legislature passed an Act establishing a system of rural credits for the State, creating the Rural Credits Board for the purpose of "maintaining a system of rural credits and providing for the loaning of money by the State of South Dakota upon real estate within this State," and, in addition, "authorizing the State of South Dakota to borrow money on its warrants and bonds secured by the good faith and credit of the State."

The purposes for which these loans may be made are almost identical with the purposes stated in the Act creating the Federal Farm Loan Board. There is this distinction, however, that loans may be made up to *seventy per cent* of the value of the land and forty per cent of the insured value of the improvements as against fifty per cent and twenty per cent under the Farm Loan Act. Loans run from five to thirty-five years and are paid on the amortization principle. I have not been able to get the exact amount of loans under this scheme, but I was informed that it probably amounts now to \$40,000,000. As the interest charges must be paid by the Government, the State is at the present moment embarrassed, as a consequence.

The State of Minnesota, in 1923, passed an Act creating a rural credit system "for the loaning of money by the State of Minnesota upon real estate within the State, authorizing the State of Minnesota to borrow money on its certificates and bonds secured by the good faith and credit of the State for the purpose of maintaining such system of Rural Credits." Here again the provisions regulating the purposes of loans are almost identical with those of the Federal Farm Loan Board. They provide for the purchase of equipment and live stock, buildings on improved farms, liquidating indebtedness on farms, and for part payment of the purchase price of improved farms, provided always that the property is occupied by the owner. Loans are limited to sixty cent of the value of the land plus thirty-three per cent of the value of the improvements and the limits between

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which loans may be made are \$500 and \$15,000. The money in this case, as in South Dakota, is raised directly by the State Treasury and made available to the board of management for loans. This system has been in operation for less than a year, but has already loaned out approximately eighth million dollars with a limit to their borrowings for the time being of forty million dollars. In January, 1924, Minnesota was disposing of its bonds at  $4\frac{1}{2}$  per cent par and was making an additional bond issue for this purpose of ten million dollars. Loans were being made to farmers on an amortization scheme for  $35\frac{1}{2}$  years at  $5\frac{1}{4}$  per cent interest plus amortization charges,  $\frac{1}{4}$  per cent less than the Federal Farm Loan Board. In reality, this Minnesota system is just duplicating the work of the Farm Loan Board and was brought about because of the conviction on the part of some people in the legislature that the Farm Loan Board was not generous enough in its lending policy and because the machinery through which it was working was said to create delays in the securing of loans.

The total amount advanced on Farm Mortgages under the various State systems is at the present moment not far short of \$100,000,000.

In concluding this section, I think a word about the general financial condition of agriculture in the United States may be permitted. In spite of all that has been done to provide credit, great distress still prevails, especially in the western and north-western states. As none of the larger organizations under Government auspices are permitted to deal directly with the individual, an effort is now being made to find a more direct way to help, especially in assisting those in the grain growing areas, who wish to develop diversified farming. A bill to grant \$50,000,000 for this purpose was recently defeated by the Senate of the United States. The President has appealed to the Chairman of a new financial organization known as the Agricultural Credit Corporation, capitalized at \$10,000,000, to undertake the responsibility of individual loans, suggesting that under proper regulations, the War Finance Corporation would be willing to make substantial advances for the purpose.

In the meantime, there is a great exodus from the land to the cities, especially in the above mentioned states. In his report to the President on the matter, Mr. Henry C. Wallace, Secretary of Agriculture for the United States, stated that over a million people left the land in 1923. Recently, representatives of a number of the leading farm organizations in the United States have published an open letter to "the President, the Congress and the People of the United States", in which the statement is made that farmers were forced from their homes during 1923 at the rate of 100,000 per month and "the process still is under way in all its cruelty". "Country conditions", it is said, "cannot be told in words. The hundreds of broken banks are real, but the suffering which followed them is hidden in the haze of distance. Unceasing toil of millions of people, futile attempts to protect family and property is lost without recognition. The reason for all this remains unchecked, although it has existed for five years.

"The cause is evident. A disordered world emerging from war and handicapped by man-made barriers across channels of international trade proves unable to absorb the surplus production of our farms and our industry at prices commensurate with American standards. An elaborate structure of economic protection is provided for industry and labour but does not reach the farmer.

"The remedy is as obvious as the cause. It rests in the application of effective protection of the farm equally with those of other industry. The establishment of domestic markets for farm crops on an American basis, apart from world conditions, to conform with like markets already provided for American manufacture and American labour."

The remedy proposed is that the United States should shut herself off from trade contact with the outer world. This would appear to be the remedy of

despair. In reality, there are two causes, one of which is touched upon in the foregoing quotation, viz., the disorganized state of the world markets, resulting from the world war and the inability of Europe to feed herself at the American cost of production. The second cause, however, is found in the fact that during the war, the high prices of products led to the purchase of land under conditions which made profitable cultivation impossible in normal times. This was further accentuated by the agricultural development of areas for cereal crops, hitherto unused and wholly unsuited for the purpose. I would respectfully suggest that in this there is a lesson for Canada.



## SECTION V

## RURAL CREDIT IN THE DOMINION OF CANADA

The discussion of the problems in connection with rural credit in Canada is of long standing. Many years ago, in some of the provinces of Canada an effort was made to meet the requirements of the small town and country districts by means of a system of small banks. For reasons which it is unnecessary to discuss in this report the scheme failed in Canada and our banking history, as a consequence, runs along a line entirely different from that of our friends in the United States. Canada followed the European especially the English tradition of establishing large central banks, operating through branches established in localities where the establishment of such branches appeared to be warranted economically. The Canadian banking system went through a period of ups and downs as did the banks of the United States, having its times of great success and periods of prosperity and its times of failure in periods of great depression. In the early days the demand among the farmers for credit from the banks was not great, but, as the days went by, the same kind of conditions that produced the increased demand for Agricultural Credit in the United States increased the demand in Canada and the agitation in favour of a special system for financing agriculture followed closely the history of the same movement in the United States.

Up to the present time no general system of Agricultural Credit either for Long Term or Short Term Credit has been established. Efforts have been made from time to time to secure legal standing for Co-operative Credit Societies on the European model, but have so far failed of recognition, as far as the Federal Parliament is concerned.

On three occasions bills have been presented to Parliament, but did not secure authorization. These bills were:—

1. Bill 26, 1909-10. An Act Respecting Co-operative Credit Societies.
2. Bill 11, 1910-11. An Act Respecting Co-operative Credit Societies.
3. Bill 194, 1914.. An Act Respecting Co-operative Credit Societies.

So far, therefore, as the Federal Parliament is concerned, organized Long Term Credit is a private enterprise in the hands of the mortgage companies and insurance companies and Short Term Credit in the hands of the banks. No effort to meet the requirements of what is called Intermedite Credit has been made, except by the banks.

In most of the provinces of Canada, however, efforts have been made to organize all these forms of credit. These efforts are discussed in what follows.

**British Columbia**

So far as I am aware, the first effort to establish some system of Rural Credits in Canada was tried out in British Columbia. In 1897-8, a demand was made in the Province of British Columbia for cheaper money than that provided by the ordinary banks and loan companies for agricultural purposes and an Agricultural Credits Act was passed by the British Columbia Government in 1898. This Act was based on the agricultural system of Germany. Its author was Mr. R. E. Gosnell, who was then in the service of the British Columbia Government. Under this Act, the Government of British Columbia took power to loan money to associations of farmers of twenty or more members

for specific purposes, including fencing, draining, purchase of live stock, farm implements, etc., to persons, who, having pre-empted land, had worked upon it long enough to secure their grant from the Crown as well as to other farmers who had already had their lands under cultivation.

The scheme was an unlimited liability scheme. The money was to be loaned to an association of borrowers, who, following the practice of the Raiffiesen system in Germany, were authorized to loan money to members on the endorsement of two of their number. The Government undertook to loan to the Association at  $3\frac{1}{2}$  per cent and to allow the Association to charge its members 5 per cent, the  $1\frac{1}{2}$  per cent margin being allowed for expenses and to create a reserve fund for possible losses. This Act was passed as a result of a good deal of agitation, but no loans were ever made under it for the simple reason that the farmers were not prepared to accept the co-operative principle involved in it.

Later on, two special Acts affecting agriculture were passed and, with amendments made from time to time, are still in operation in the province. The first was passed on March 6th, 1915, and is entitled "An Act Respecting Agriculture and Providing for the Incorporation and Organization of Agricultural Associations and Making Provision for Agricultural Credits". It is cited as "The Agricultural Act, 1915". The other, passed in May, 1917, is entitled "An Act to Promote Increased Agricultural Production" and is cited as "The Land Settlement and Development Act". Both of these acts provide for Long Term Mortgage Credit and also for Short Term Credit under certain specified conditions.

#### **Agricultural Act, 1915**

Under this Act, there is created an Agricultural Credit Commission, consisting of a superintendent who shall be, ex-officio, a director, and four other directors, who together constitute a body corporate with the usual powers to conduct a lending business as described in the Act. The superintendent holds office for ten years, unless removed as a result of action in the Legislative Assembly. Two of the directors are appointed for a period of ten years under the same conditions, but they must be engaged in the occupation of farming; the other two directors are the Deputy Minister of Finance and the Deputy Minister of Agriculture.

All regulations made by the commission for the conduct of business, all fees payable, etc., are subject to confirmation by the Lieutenant Governor in Council. Provision is made for the usual methods of carrying on the business of such an organization.

#### **Working Capital**

The working capital of the Commission is such as is raised from time to time by the issue of securities and such money as may be appropriated from time to time by the Legislative Assembly and such money as otherwise becomes available under repayment and other funds. All securities sold are sold by the Department of Finance of the Province and are unconditionally guaranteed by the Province. The Board works in the closest possible association with the provincial authorities. It, however, is authorized to keep its own accounts and to make its own banking arrangements subject to the approval of the Government. Provision is made in the usual way for sinking funds and reserve funds to cover accruing securities.

Under the Act, the Commission is authorized to accept as security for loans first mortgages upon agricultural land in the Province of British Columbia free from all encumbrances, liens, and other interests, except where special provision is made to the contrary.



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The loans are made for the following purposes:—

- (a) The acquiring of land for agricultural purposes and the satisfaction of encumbrances on land used for such purposes;
- (b) The clearing of land, draining, dyking, water-storage and irrigation works;
- (c) The erection of farm buildings;
- (d) The purchase of live stock, machinery and fertilizers;
- (e) Discharging liabilities incurred for the improvement and development of land used for agricultural purposes and any purpose calculated to increase land productiveness;
- (f) And any purpose which in the opinion of the Commission will increase the productiveness of the land in respect of which the loan is proposed;
- (g) Carrying out the objects of any association, subject to approval by Order in Council as hereinafter provided;
- (h) Taking over in whole or in part and with the approval of the Lieutenant Governor in Council, by Order in Council, any existing loan by the Crown in right of the Province of British Columbia to any association or any debentures issued by any association.

No loan is granted for an amount exceeding sixty per cent of the appraised value of the land offered as security for the loan, the value to be calculated on the basis of productiveness.

Loans are granted only to persons engaged in agricultural pursuits, and all officers and directors of the company are prohibited from receiving loans.

Loans may be made as long term loans or as short term loans or for a single season, in every case being covered by the mortgage. The rate of interest is not fixed, but it must not exceed more than one per cent of the actual interest paid on the securities upon which the money was raised. Long term loans must be paid back by amortization in either 36½ years, 30 years or 20 years. Short term loans must not exceed in amount \$2,000 to an individual or \$10,000 to an association. Such loans must not be for less than three years or more than ten. Single season loans may be made secured by promissory note and by a mortgage, the total amount to a person or individual being the same as above.

Power is given under the Act for increasing loans on a basis of improved condition of property or in recognition of instalments already paid.

Rigid provision is made in case of a loan not being applied to the definite purpose for which the loan was granted. The Commission may by giving one month's notice enter upon the property and sell either by private sale or public auction without recourse to law the property of the borrower.

Up to the end of 1922, loans were granted under the Act amounting to \$1,073,300.00, and there was outstanding \$691,250.00 with overdue interest amounting to \$32,152.53.

Most of the money loaned has been used in refunding accumulated debts. The Act has not produced satisfactory results.

When the Agricultural Act of 1915 was passed, previous Acts bearing upon the same subject were repealed.

#### **Land Settlement and Development Act, 1917**

The Land Settlement and Development Act was passed in May, 1917, and amended in 1918, 1919 and 1920. Under this Act, there was created in the Department of Agriculture or in the Department of Lands, as might be determined by the Lieutenant Governor in Council, a Land Settlement Board, consisting of one or more members appointed by the Lieutenant Governor in Council.



To this Board, on the authority of the Lieutenant Governor in Council, the Minister of Finance is authorized to pay from time to time, out of the consolidated revenue of the Province, any monies appropriated by or under authority of the Legislature for the purposes of the Board. These advances are to bear interest at a rate fixed by the Lieutenant Governor in Council from time to time.

All salaries and other expenses incurred by the Board for the administration of the Act are paid out of the money so advanced.

The Board is authorized to make loans, subject to the regulations of the Board to any person or association on first mortgage security upon agricultural land in the province, if it be free from encumbrances other than liens to the Crown, that is to say:—

- (a) Land held in fee simple.
- (b) Land held by record of pre-emption under the Land Act.
- (c) Land held by certificate of purchase on deferred payment.

Further, the Board is authorized to make loans by security on mortgage to Associations incorporated under the Act of 1915 of a sum not exceeding 60 per cent of the cash value of the Association's property.

Under this Act, loans are made for the following purposes:—

- (a) For any purpose which in the opinion of the Board will maintain or increase agricultural or pastoral production;
- (b) For carrying out the objects of any association, subject to approval by Order in Council;
- (c) For taking over in whole or in part, subject to approval by Order in Council, any existing loan advanced by the Crown in right of the province to any association or any debentures issued by any association.

Before the granting of a loan, certain definite regulations with regard to valuing security have to be carried out.

All mortgages under this Act contain the personal covenant of the borrower. The borrower is also required to keep insured all destructible property.

The rate of interest on these loans is fixed from time to time by the Lieutenant Governor in Council, but must not exceed by more than one-half of one per cent the actual amount paid by the Government for the money.

Two kinds of loans are made:—

- (1) Loans which may run either 25, 20 or 15 years, the annual collections being sufficient to amortize the loan within the period.
- (2) Loans which may run from three to ten years and are described as short-dated loans.

These loans are limited in amount not to exceed \$5,000 to an individual or \$10,000 to an association. They are not amortizable, but are subject to the conditions created by the Board.

Under this Act, in case of default in making payment, the Board may enter upon the property for collection without recourse to a court of law.

Under this Act, there was outstanding at the end of 1922, on principal, \$627,615.00, and overdue interest of \$34,486.00.

Under both of these Acts, the money borrowed has been used largely in paying off existing liabilities, generally in favour of mortgage companies.

It is stated by the British Columbia authorities that the most satisfactory borrowers are those starting on new land with a certain amount of capital, in which case the loan is made for some specific improvement.

These organizations are apparently not destined to play a very important part in the farm mortgage business in British Columbia.

### Quebec

The first successful effort to introduce the principle of the small bank for rural purposes in Canada was made in the Province of Quebec. The late M. Alphonse Desjardins, a resident of the town of Lévis, after a careful study of the systems of small banks in operation in Europe, decided to introduce into Quebec a system of "People's Banks", the "Caisses Populaires" after the model of the "People's Banks" in Italy.

The first bank was organized under the scheme on December 6th, 1900, in the town of Lévis.

The conditions making possible the success of such a scheme were present in the Province of Quebec as in no other province in Canada. The social, racial and religious unity that exists there made it easy for groups of people to co-operate on a common idea.

These banks were finally organized by law and operate under the Quebec Syndicates Act passed in 1906 and amended in 1919. Since 1915, they are obliged to make an annual report on their operations to the Secretary of the Province and the Bureau of Statistics is obliged to collect and compile reports for publication in the statistical year-book.

These banks are not strictly rural institutions, that is to say, they admit to membership persons who are other than farmers, but, in reality, they work out to be more largely in the interest of farmers than any other class, because of the high percentage of farmers composing the membership. While they do not specially aim to do mortgage business, loans are made on first mortgage on immovable property. In addition, they make loans to their members on personal security.

Each bank works in a small restricted area, where the personal character and integrity of the individuals are well known, so that the risk on loans is exceedingly small. The capital for the individual banks is raised by selling shares of five dollars each and by receiving deposits, upon which savings bank interest rates are paid. Both shares and deposits may be withdrawn on demand. The liability of the shareholder of the bank is limited to the value of his shares in the bank. It was believed by Mr. Desjardins that it would be impossible to have an unlimited liability scheme in Quebec as in Europe and that was probably his real reason for selecting the Italian model rather than the German model for his banks.

#### Management

Each bank is administered by a board of management composed of at least five members. There is a committee on credit composed of at least three members. This committee examines and approves, or disapproves, the loans requested by shareholders. None but shareholders are allowed to borrow. There is a board of supervision composed of three members, who are responsible for checking the value of the securities and checking accounts. No member of any board is permitted to borrow. They give their services gratuitously. All officials are obliged to reside in the parish or city where the bank is founded. The manager may be paid a salary.

Each bank is required to deposit at least ten per cent of its annual net profit in a reserve fund. The balance is distributed among the shareholders as a bonus or dividend. The shareholders receive a dividend on their investment, varying from  $4\frac{1}{2}$  per cent to 8 per cent. Depositors are paid from three to four per cent on their deposits.

In 1922, there were 111 of these banks in existence in Quebec, with 32,173 shareholders or members. 30,583 persons held deposits in these banks. Loans



were granted that year to the number of 13,367 and to the amount of \$2,891,092. The total business transactions for that year amounted to \$11,148,323.00 and the profit realized on the transactions was \$334,395.00

The one thing necessary to make this system complete, following the European model, would be a central bank through which the individual banks could co-operate in the interests of each other.

When it is recalled that, when the first bank was started at Lévis on December 6th, 1900, the total first collections amounted to \$26.00 and that this bank in 1922 had on loan \$304,043.84 to over one thousand borrowers and showed a gross profit for the year of \$64,243.00, while the entire system had done business as stated above, I think it would be admitted that this is a financial achievement of a very high order and justifies the faith of Mr. Desjardins and his associates when, in order to relieve the small farmers and working people of the Province of Quebec from the pressure of high interest rates, they undertook to found the system of People's Banks.

### Nova Scotia

The next legislation in Canada in the direction of organizing rural credit was passed in Nova Scotia in 1912, entitled "An Act for the Encouraging of Settlement on Farm Lands." This Act was amended in 1913 and again in 1915 and again in 1919. In addition, a special Act was passed in 1919 entitled "An Act to provide Loans to Agriculturists upon the Security of Farm Mortgages."

#### Long Term Loans

Under the Act of 1912, "An Act for the Encouraging of Settlement on Farm Lands", and its amendments, the following methods are provided for making loans to settlers or farmers:—

- (a) Through the medium of a loan company through which a borrower can obtain up to eighty per cent of the appraised value of the farm land to be mortgaged, the Governor in Council giving the company a guarantee against loans up to forty per cent of the appraised value of the farm.
- (b) The Governor in Council is authorized to purchase real estate in farming districts, sub-divide it into farms or lands, repair, alter, or erect buildings and till and seed the land and sell the real estate, stock and improvements to settlers. Any approved loan company may be employed to act as agent in the taking of securities and the taking of principal and interest. There is also a provision giving the Governor in Council power to purchase stock and improvements on chattel mortgage. Under this Act loans to the amount of \$152,000 have been made to seventy-one farmers.

The Act of 1919, "An Act to Provide Loans to Agriculturists Upon the Security of Farm Mortgages," provides for the appointment of a Board of three,—

- (a) To lend money to agriculturists on the security of first mortgage on farm lands.
- (b) To acquire, hold and dispose of real estate as may be required.
- (c) To borrow money to carry out the objects of the Board, to hypothecate, pledge and mortgage its real property, and to sign bills, notes and contracts and for evidences of debt or securities for monies borrowed by the Board for the purposes aforesaid.



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- (d) To make provision for the placing of returned soldiers or other persons with farmers, in order that they may be instructed in farming, and
- (e) To make loans to a farmer who desires to erect a dwelling house on his farm for the occupation of any person employed by him as a farmer.

The period of a loan can be for thirty years, the amount loaned not more than seventy per cent of the value of the property, the interest at a rate sufficient to pay the interest on the money borrowed and the cost of raising the money by the Provincial Treasurer. This latter Act, has, however, never been put into operation.

### New Brunswick

The New Brunswick Legislature passed in 1912 "An Act to Encourage the Settlement of Farm Lands." This Act created a Farm Settlement Board with powers to purchase land in the Province suitable for farming, to improve the same, to erect houses and farm buildings thereon and to sell these lands to bona fide settlers. Settlers were required to pay 25 per cent of the purchase price in cash, where the property was valued at less than \$1,000, and 35 per cent if valued at more than \$1,000. The interest rate was fixed at 5 per cent. The purchase price must be paid at stated periods, the limit for final payment being ten years.

Under this Act, in the last five years, about fifty loans have been granted. At the end of 1922, \$80,439.55 was outstanding in loans. At no time have the outstanding loans under this Act exceeded \$130,000.

In April, 1923, a new Act was passed in the province of New Brunswick, known as the "Farmers' Relief Act." Its aim was to relieve farmers from financial embarrassment, to encourage agricultural development by providing for loans upon farm mortgages at reduced rates of interest. Under this Act, municipalities are authorized to borrow up to 75 per cent of the total value of the real estate in the municipality for the purpose of making loans to farmers residing within the municipality. A Farm Loan Board is authorized, consisting of three persons, two of whom may be members of the Municipal Council. This Board makes all necessary regulations regarding loans. The loan to the individual must not exceed 75 per cent of the value of the farm land owned by the borrower within the municipality; must be secured by a first mortgage and repayable by an amortization plan not exceeding thirty years. The maximum interest allowed is 6 per cent par annum.

Loans are made for the following purposes:—

- (a) The discharge of liability incurred for the improvement of land used for agricultural purposes;
- (b) The acquiring of land for agricultural purposes and the satisfaction of encumbrances thereon;
- (c) The clearing and draining of land, the erection of farm buildings, the purchase of live stock and implements.

Money is raised under the provisions of the Municipality Debentures Act of the Province.

I have not been able to obtain information as to the number and amount of loans made under this Act.

### Ontario

Three separate acts with respect to Rural Credit have been passed in the province of Ontario, all during the session of the Legislative Assembly of 1921. The first is entitled "An Act for the Promotion of Agricultural Development" (amended in 1923), the second, "An Act Respecting Short Term Farm Loans in Ontario" and the third, "An Act to Finance Agricultural Development."

### Long Term

The first of these Acts provides for long term or mortgage credit, the second provides for short term personal credit, and the third provides special means by which the Treasurer of the Province may use savings funds in financing the other two Acts. The Acts are based on the legislation of the Province of Manitoba described later.

### Capital Funds

Under the first Act, there is established a Board, to be known as the Agricultural Development Board, which consists of three persons appointed by the Lieutenant Governor in Council. This Board is a body corporate and has for its duty the promotion of agricultural development as provided in the Act. The Board, with the approval of the Lieutenant Governor is permitted to issue bonds to the amount of \$500,000 in such denominations and such rate of interest as the Board itself may see proper. Provision is made for the purchase of these bonds by the Province of Ontario, the money for purchase being deposited with the Board for its own use. In addition to the above, with the approval of the Lieutenant Governor in Council, the Board is permitted from time to time to issue debentures in such denominations as it may deem advisable. These debentures are to be issued as mortgage bonds, that is, against the security of mortgages held by the Board. The money so raised may be used in the following manner:—

- (a) Acquiring land for agricultural purposes;
- (b) The erection of farm buildings essential to production;
- (c) To pay off charges existing against land at the time of acquisition by the borrower under a will or by descent;
- (d) To pay off encumbrances in which cases loans shall not exceed 50 per cent of the valuation;
- (e) For the purpose of providing tile drainage;
- (f) To purchase breeding live stock;
- (g) To consolidate outstanding liabilities incurred for agricultural productive purposes.

The applicant for loans must submit evidence to the satisfaction of the Board;—

- (a) That he is a British subject of at least twenty-one years of age, and has been resident in Canada for at least three years;
- (b) That he has had at least three years' experience in farming and has displayed average ability and capacity;
- (c) That he is of good character;
- (d) That he is actually engaged or intends to engage upon the land upon the security of which the loan is to be made.

The limit to which a loan can be made is \$12,000 and it must be secured by first mortgage upon lands suitable for agricultural purposes.

Provision is made for repayment in annual instalments of principal and interest sufficient to discharge the debt within a period not exceeding twenty years.

The expenses of the conduct of the Board, including salaries, are paid out of the consolidated revenue of the Province.

This Act has only been in operation for two years. Over 1,500 applications have been received for loans, of which 1,411 have been granted. The total amount of loans made up to October 31st, 1923, was \$5,769,955.00.

The Ontario system of long term loans is distinguished from the American system in that the individual deals directly with the Board and not by means of a local association.



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**Short Term Farm Loan Associations**

The second Act provides for short term loans. This scheme operates under the Agricultural Development Board, as does the scheme for long term loans. Under this scheme, local associations, known as Farm Loan Associations, are required. Any person resident within a described territory, which has been approved by the Board, and engaged in farming operations or agreeing to become so engaged within one year, is eligible for membership.

In order to form a local Farm Loan Association, certain provisions with regard to capital stock must be complied with, viz.:—

- (a) Thirty members are necessary and each member must subscribe for one share at a par value of \$100.00;
- (b) One-half the amount subscribed by the members must be subscribed by the corporations of local municipalities in the territory where the Association is formed;
- (c) An amount equal to that subscribed by the municipalities must be subscribed by the Ontario Government.

This arrangement for capitalization of the Local Association differs entirely from the American system.

Each member must pay in 10 per cent of the par value of his stock at the time of subscription and the balance when called for, the payments by municipal corporations and the Ontario Government being made in the same proportion. Provision is made for the combination of two or more municipalities under one organization.

The board of management consists of two directors appointed by the municipal corporations subscribing, two directors appointed by the Lieutenant Governor in Council; the subscribing members elect from among themselves a president, vice-president and one director, who, with the four previously named, constitute the board of management.

Under this Act, short term loans are made for one or more of the following purposes:

- (a) Purchase of seed, feed, fertilizer and other supplies;
- (b) Purchase of implements and machinery;
- (c) Purchase of cattle, horses, sheep, pigs and poultry;
- (d) Payment of cost of carrying on any farming, ranching, dairying or other agricultural operations;
- (e) Payment of the cost of preparing land for cultivation;
- (f) Fire or life insurance where required, in the opinion of the directors, as collateral security for a loan made for any of the above-mentioned purposes.

No loan is made to exceed \$2,000.00.

The maximum rate of interest allowed is 7%, one-seventh of which goes to the local association for expenses.

Fifteen associations had been formed in Ontario up to October 31st, 1923, and 399 loans were made amounting to \$310,875.00.

The capital required for carrying on the business of the association may be obtained in two ways:—

- (a) The Treasurer of Ontario may, with the approval of the Lieutenant Governor in Council, make loans to the Board; and
- (b) The Minister of Agriculture may, with the approval of the Lieutenant Governor in Council, enter into agreement and guarantees with banks, loan companies and other corporations for securing money for the purposes of the associations, and may fix interest rates and terms of repayment.



I doubt if this scheme will play a very large part in the business organization of the farmers of Ontario.

The third Act, to finance agricultural development, authorizes the Treasurer of Ontario to borrow money by means of deposits in any amounts from any person or corporation and to open offices for this purpose in such parts of Ontario as seem to him wise.

In so far as this Act affects agriculture, it provides that the money raised in this way may be available:—

- (a) To make loans to members of associations under the Ontario Farm Loans Act; and
- (b) To purchase bonds or debentures issued under the Agricultural Development Act.

By this Act, savings bank deposits are made available through the Agricultural Development Board for agricultural purposes.

It has resulted in a considerable share of the savings deposits in Ontario going to the Government.

### Manitoba

In the Province of Manitoba, three Acts respecting Rural Credit have been passed and are now in operation. One of these, "An Act to Foster and Encourage Agricultural Development by Providing for Loans upon Farm Mortgages at Reduced Rates of Interest", is a long term mortgage scheme; the second, "An Act Respecting Rural Credits," provides machinery for the making of short term personal credit loans; and the third is entitled "An Act to Encourage Savings, to Authorize the Borrowing of Such Savings and the Issue of Securities Therefor."

#### Long Term

Under the first Act, there is established in the province a body corporate under the name of the Manitoba Farm Loans Association, to which, from the management point of view, is given all the general powers of a financial corporation.

The affairs of the Association are managed by a Board known as the Manitoba Farm Loan Board, consisting of five members appointed by the Government. Of these members, one, the Commissioner of Manitoba Farm Loans, is directly appointed by the Lieutenant Governor in Council and at pleasure, one may be nominated by the Union of Municipalities of the province and one by the Grain Growers' Association. The period of service is designated by the Lieutenant Governor in Council. All the expenses, including salaries, together with all other proper expenditure incurred by the Board, must be paid out of the funds of the association.

#### Capital Stock

The capital stock of the Association, which was originally \$1,000,000, is now fixed by an amendment to the Act at \$550,000, divided into 110,000 shares of five dollars each. These shares can only be owned by borrowers on farm loan mortgages under the provisions of the Act, and by His Majesty in the right of the Province. Every borrower must purchase capital stock of the Association equal to five per cent, of the value of the desired loan, the same to be paid in cash or deducted from the loan. The certificates of shares issued are not transferable, unless the property on which the mortgage is held is sold, in which case the shares may be transferred with the sale.

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Under the Act, one-half the share capital of the Association is purchased by the Government, which also is authorized to advance to the Association an amount equal to the paid up capital of its members, the total not to exceed \$550,000.

The rate of interest charged on loans made by the Association, which was originally 6 per cent, was fixed by an amendment to the Act in 1921, at 7 per cent per annum.

The amount of the loan must not exceed 50 per cent of the estimated value of the land mortgaged together with the value of the improvements upon the land, the appraisals being made on a valuation for agricultural purposes only.

Loans are made only for the following purposes:—

- (a) The acquiring of land for agricultural purposes and the satisfaction of encumbrances on land used for such purposes;
- (b) For the cleaning and draining of land;
- (c) The erection of farm buildings;
- (d) Purchase of live stock and implements;
- (e) Discharge of liabilities incurred for the improvement and development of land used for agricultural purposes and any purpose calculated to increase land productiveness.

Loans are made only to those actively engaged or intending to engage in the cultivation of the land and the Board may require borrowers, if in their judgment they deem it necessary, to insure crops against damage by hail, storm, etc., in a company approved by the Association. Should any borrower at any time use the money loaned for purposes other than the purposes for which it was borrowed, the mortgage at once becomes due and payable.

#### Sale of Bonds

The Lieutenant Governor in Council is authorized to empower the Board, on behalf of the Association, to raise by the issue of bonds against first mortgages, a sum not to exceed twelve million dollars. The issue at any one time must not exceed 95 per cent of the value of the mortgages held as security. The rate of interest at which these bonds can be issued must not exceed 5 per cent per annum. These bonds are guaranteed as to principal and interest by the Government of the Province, and, in case of the Association not being able to meet interest charges, they become at once a direct charge upon the revenues of the Province.

Further, it is provided that, pending a sale of bonds by the Association, which have been authorized by the Lieutenant Governor in Council, the Province may advance or guarantee a loan to the Association at any bank for a sum not exceeding at any one time \$1,000,000.

All the securities, including the capital shares issued under this Act, are free from all kinds of taxes other than federal taxation and the succession duties.

All mortgages are repaid on an amortization plan covered by 30 annual instalments, the debt to be extinguished in 30 years.

Up to the 31st December, 1923, approximately \$3,000,000 had been loaned under this Act. There has been a great demand for further loans, but the Government did not feel like going further into the scheme for the present.

It is hardly necessary to point out that this plan, like the Saskatchewan plan, differs materially from the farm loan scheme in the United States. While the Farm Loan Association is a corporation for the purpose of doing business, all the money acquired is acquired through an arrangement with the Government and with Government guarantees, while the officers who manage it are



subject to the direct action of the Lieutenant Governor in Council. In reality, individuals receiving loans are receiving Government moneys with all the disadvantages of the sense of close contact with the Government.

### Short Term Loans

The second Act, The Rural Credits Act, is an Act authorizing the making of short term loans. The Act authorizes the organization of Rural Credit Societies in any part of the province. Such a society is organized on the basis of a petition presented to the Lieutenant Governor in Council, signed by not less than fifteen persons engaged in agriculture, setting out—

- (a) the names, addresses, occupations, and land owned or occupied by them;
- (b) that the petitioners desire to organize Rural Credit Society in a given locality within the Province;
- (c) the name of the municipality or locality which is to be the place of business;
- (d) the proposed name of the society;
- (e) the amount of capital stock and the number of shares into which the stock is divided with the mount paid on each subscription;
- (f) the names of not less than three nor more than seven of the subscribers who shall be provisional directors of the society.

The Lieutenant Governor in Council may then issue letters patent, incorporating the society with the prescribed powers under the Act, after which the organization of the society can be completed.

The society is not permitted to commence business until it has received subscriptions in capital stock from at least 35 persons engaged in farming, of \$100 each and of which not less than 25 per cent has been paid.

The Government of the Province is authorized to subscribe an amount equal to one-half of the total amount subscribed by the individual shareholders, the amount to be paid in in like proportion to the individuals. The Government may borrow \$500,000 on debentures for this purpose. Any municipal corporation or combination of two or more municipalities may also subscribe an amount equal to that subscribed by the Government of the Province. The municipalities subscribing may issue debentures for the purpose of paying their subscription.

The business management of each society is vested in a board of directors composed of nine members, three elected annually by the individual subscribers, three appointed by the council or councils of the municipalities subscribing to the capital stock and three by the Lieutenant Governor in Council, each to serve for three years. It is necessary that at least one of the directors shall be a graduate of the Manitoba Agricultural College, or otherwise specially qualified in agriculture.

The officers of the society are appointed by the directors and registered by the Provincial Secretary and all the subscribing municipalities in the usual way. The secretary is the only paid officer and he may not be a member of the society, but is appointed because of his suitability for the work. The annual meeting is called for once a year.

The objects of the Rural Credit Societies organized under the Act are:—

- (a) To procure short term loans for members for paying the cost of farm operations of all kinds and increasing the production of farm products;
  - (1) and, particularly, for purchase of seed, feed and other supplies;
  - (2) purchase of implements and machinery;
  - (3) purchase of cows, hogs, sheep, pigs and other animals;



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- (4) payment of the cost of carrying on any farming, ranching, dairying or other like operation;
- (5) payment of the cost of preparing land for cultivation;
- (6) payment of not more than one-half the cost of erecting silos.
- (b) To act as agents for members in purchasing supplies and selling products;
- (c) To promote co-operation for the improvement of conditions of farm life and to extend its operation to all residents of the district.

The moneys loaned under the Act are arranged for either with a chartered bank or with private individuals. Loans are made on a note signed by the applicant, approved by the directors and endorsed by the secretary, on behalf of the society, which thereby becomes responsible to the extent of the assets of the society, in case of default. The rate of interest is fixed so as not to exceed 7 per cent per annum, of which  $\frac{1}{7}$  is paid to the local association for the purposes of the business of the society, so that only 6 per cent is paid to the lender. All loans terminate on the 31st day of December of the year in which the loan is made, but application for renewal for one year beyond that date is admissible, provided the loan was made for purposes not productive within a year.

Under an amendment to the Act in 1923, the Province is authorized to lend to any society from the treasury, "to the extent of, but not exceeding, twenty times the paid up capital and surplus assets of such society, provided that no society shall incur liabilities, whether direct or contingent, in excess of the amount of its capital and surplus assets."

As security for the loan, so far as the individual is concerned, all animals, machinery, or goods of any kind purchased with the proceeds of the loan, together with the offspring of such animals and crops or any products produced as the result of the loan are subject to lien without documentary specification.

For default in payment or dishonest practices on the part of the borrower, there are very rigid enactments.

The capital stock of any society must be invested in Government bonds or bonds guaranteed by the Government and all the income derived must be paid into the society to be applied:—

- (a) in payment of the necessary expenses of the society;
- (b) in payment of dividends on the stock of not more than 6 per cent;
- (c) in accumulating a reserve which may, in the discretion of the directors, be invested in the same way as the capital stock.

Over and above all the societies there is a supervisor appointed by the Lieutenant Governor in Council, known as the Supervisor of Rural Credit Societies. His duties are defined by the Lieutenant Governor in Council.

In 1923, an investigation of the working of these societies was authorized by the Government and a report made upon them by Professor Jackman and Mr. Collier. The report was very condemnatory of the handling of the business of the societies and indicated the possibility of a very large loss to the Government. Approximately \$3,000,000 is outstanding in loans made under this system of which at least three-quarters are renewals of loans with outstanding interest charges of approximately \$30,000.

The Act originally did not place a limit to the borrowings, the result being that some individuals have received very large loans. Amendments have since been passed, however, restricting loans to \$2,000.

The third Act, "An Act to Encourage Savings, to Authorize the Borrowing of Such Savings and the Issue of Securities Therefor," is similar to the corresponding Act in Ontario.

### Saskatchewan

A Long Term or Mortgage Credit plan has been in operation in the province of Saskatchewan for some years. It is worked under an Act named "The Saskatchewan Farm Loans Act." The Act is administered by a Board called the Saskatchewan Farm Loan Board, consisting of one commissioner and two other members appointed by the Lieutenant Governor in Council. The Board is a corporation and, while receiving its moneys from the Government, works independently.

The Board has power—

- (a) to lend money on the security of farm mortgages;
- (b) to invest disposable funds by depositing same with any chartered bank, or in any other manner in which the trustees are permitted by law to invest trust funds;
- (c) to acquire and hold real estate for the purposes of the Board and to dispose thereof when no longer required for such purposes;
- (d) to borrow money as required for the purposes of the Board and to perform such transactions by way of security as are necessary;
- (e) to do all the necessary and incidental business resulting from the operation of a money lending agency on farm property.

The Farm Loan Commissioner holds office for ten years, unless removed for cause as the result of action in the Legislative Assembly. The other two members hold office during the pleasure of the Lieutenant Governor in Council.

No loan is permitted excepting on the security of a first mortgage on farm lands situated within the Province. Encumbrances, however, may be upon the land in the nature of legal priorities under the laws of the province.

Loans are made for the following fixed purposes:—

- (1) For permanent improvements to the property mortgaged, which, in the opinion of the Board, will assist in the productive development of the property;
- (2) Payment of liabilities which, in the opinion of the Board, have been incurred for any of the above purposes;
- (3) In special cases and under special conditions for the cultivation of land for agricultural purposes.

No loan is made for an amount greater than 50 per cent of the Board's valuation of the security offered.

Loans are made for a term of 30 years and are payable by amortization.

The rate of interest charged is to be sufficient to pay the interest on and the cost of raising the money as well as the expenses of conducting the business of the Board and other incidental expenses.

The working capital necessary is advanced from time to time by the Provincial Treasurer under the authority of the Lieutenant Governor in Council. The total sum permitted to be so raised under the Act is \$10,000,000, the securities used for raising it being Provincial securities. The term of years and the rate of interest to be paid by the Province is left to the determination of the Lieutenant Governor in Council.

The amount of advances made by the Provincial Treasurer is limited by the amount of the mortgages held by the Board and hypothecated to the Provincial Treasurer as security for the advance.

The Board is authorized, pending the disposing of securities, to borrow from any bank or corporation with the approval of the Lieutenant Governor in Council.



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In the working of the Act, the Government has not authorized the selling of debentures at a rate greater than 5 per cent and has fixed the rate of interest for loans at  $6\frac{1}{2}$  per cent. The Government charges the Board  $5\frac{1}{3}$  interest for the money,  $\frac{1}{3}$  being assumed to be sufficient to cover the expenses of sale and other incidental expenses to the department. The Board has thus a margin of  $1\frac{1}{6}$  per cent to cover expenses of administration and possible losses. This is regarded by the Farm Loan Board of Saskatchewan as sufficient for the purpose.

Up to December 31st, 1923, approximately \$9,000,000 was loaned out under the scheme.

It will be seen, therefore, that in Saskatchewan, while the money is raised directly on the credit of the Province, it is passed over to a Board which is a separate corporation, through which all the business is handled. Further, the Saskatchewan plan does not use the local association in any way, so that the individual borrower comes in direct contact with the Board. The relation of the borrower to the Government, therefore, is much nearer than is the borrower to the Government under the American farm loan scheme and the plan resembles more closely the plan recently inaugurated by the state of Minnesota.

Most of the loans were made prior to 1922. The difficulty of securing money at 5 per cent has retarded the growth of the scheme.

### Alberta

There are two Acts on the statute books of the Province of Alberta, dealing with rural credit, one entitled "An Act to Foster and Encourage Agricultural Development by Means of Standard Forms of Investment upon Farm Mortgage and the Equalization of Rates of Interest." It is cited as the "Alberta Farm Loan Act." The other, entitled "An Act Respecting Co-operative Credit" is cited as the "Alberta Co-operative Credit Act." The first of these is to provide at its title indicates, Long Term or Mortgage Credit; the second is intended to provide Short Term or Personal Credit.

#### Long Term Loans

The Alberta Farm Loan Act, which was passed in 1917, is, in its general outline and purpose, much like the corresponding Act in Manitoba. As it has never been put into operation, I do not think it necessary to go into a detailed description.

Provision is made for the advancing of money by the Government to a body known as the Alberta Farm Loan Board, a body incorporated for the purpose of making farm loans. The limit of the loan is fixed at 40 per cent of the appraised value of the land offered for security calculated on its productiveness as farm land, the maximum amount, however, not to exceed \$5,000.

The purposes for which a loan is made are clearly defined and are related entirely to farm production. Provision is made for the issuing of bonds to be known as the Alberta Farm Loan Bonds, the same being unconditionally guaranteed by the Government of the Province. The mortgages are to be repaid through the usual amortization scheme, covering a period of thirty years. The rate of interest is not fixed. It must be sufficient to pay the interest on the bonds and to cover the current expenses of the organization.

#### Short Term Loans

The Act respecting co-operative credit in the Province of Alberta is also similar to those in the other Provinces of Canada. It provides for the organization of Co-operative Credit Societies in the Province. A Co-operative Credit



Society can be organized on the presentation of a petition to the Lieutenant Governor in Council of not less than fifteen persons, who are engaged in farming operations and who subscribe for stock in the society at par value to the amount of not less than \$1,500, of which not less than 20 per cent must have been paid up, the balance to be covered by the subscriber's promissory note payable to the society at 6 per cent interest. The society, however, cannot commence business until there are thirty members with subscribed stock equivalent to \$3,000, being paid under the same conditions as above.

After the society has become duly incorporated, an additional 20 per cent of the stock becomes due on the following first day of January and so on in each successive year, until the full value of the stock has been paid up.

The society is organized to exercise its function in a specific district.

The management of the society is vested in a board of directors, four of whom must be elected at the first meeting and annually thereafter by the subscribers, three of whom are named by the Provincial Treasurer and one by the municipality giving a guarantee to the society.

Provision is made in the Act for the guaranteeing of the securities, obligations and financial undertakings of any society by the Lieutenant Governor in Council. Further, the Council of any municipality in the Province may also guarantee the securities, obligations, or financial undertakings of any society, for an amount equal to one-half the total amount of stock subscribed by the shareholders. On assuming a guarantee for an amount of money to the society, the municipality is permitted to advance the money out of the general funds of the municipality without taking a vote of the rate-payers.

All the societies under the Act come under definite regulations and by-laws approved by the Lieutenant Governor in Council.

The objects of the Co-operative Credit Societies are:—

- (1) to procure short term loans for its members for paying the cost of farming operations of all kinds and increasing the production of arm products;
  - (a) the purchase of seed, feed and other farm supplies;
  - (b) the purchase of implements and machinery;
  - (c) the purchase of cows, horses, sheep and other live stock;
  - (d) payment of the cost of carrying on any farming, ranching, stock raising, dairying and other operations;
  - (e) payment of the cost of preparing for cultivation;
- (2) to act as agent for the members for purchasing goods, chattels, effects, stock, grain, coal, wood, lumber, merchandise and any other article or commodity required by subscribers and in selling any products produced by subscribers and in placing hail and fire insurance;
- (3) to promote co-operation among its members for the improvement of conditions of farm life.

Loans are made only to members of the society and at a rate of interest not exceeding  $7\frac{1}{2}$  per cent, of which one-half of one per cent is returned to the society for the purpose of meeting the expenses of the society.

All applications for loans must be accompanied by a statement of assets and liabilities and the endorsement of the local society. Before the moneys are advanced the borrower must sign a note for the amount of the money to be advanced, together with the interest on it, which, being endorsed by the society, can be used to obtain money from any bank or company approved by the Lieutenant Governor in Council, by whom, as stated above, it is also guaranteed.

Provision is made in the event of the borrower not being able to pay the amount at the date of maturity, to renew the note for one year, provided the

## APPENDIX No. 1

purposes for which the loan was granted are not fully productive within one year. Should it become necessary because of the default of the borrower to seize any property of a borrower, the secretary-treasurer may act as bailiff and seize and sell the property without any other authority than that of the directors of the society.

Provision is also made for the retirement of a shareholder on payment of his obligation.

Any profits accruing to the society from interest or other sources are applied:—

- (a) in the payment of the necessary expenses of the society;
- (b) in the payment of dividends on paid up stock held by subscribers of not more than 6 per cent per annum; and
- (c) in accumulating a reserve which may be invested in the same manner as the paid up capital.

During the year 1923, \$830,560.00 was advanced to these societies, of which \$245,712.00 was outstanding at December 31st, 1923.

In some of the provinces of Canada, there are, in addition to the foregoing, special Acts dealing with special phases of agriculture. I have not deemed them of such importance as to require description for this report.

### Summary—Canadian Provinces

There are no available statistics regarding the amount of farm mortgage loans in Canada so that it is not possible to state the ratio of loans made under Provincial Government Organizations to the whole mortgage indebtedness of the country. The total loans made through the Provincial machinery, just described, is about \$23,000,000, an amount probably not more than 10 per cent of the whole, and certainly not enough to regulate interest rates on mortgages, but enough to prove the value to the farmers of the Amortization Principle. It is an unfortunate fact that most of the organizations described have for the moment ceased to function because of the difficulty of obtaining money at sufficiently low rate of interest, and because of the danger of embarrassing the Provinces by increasing too greatly their bonded indebtedness.

One other matter deserves special mention. In all the Provinces the Boards of Management have had difficulty in overcoming a disposition on the part of a considerable proportion of borrowers to regard lightly obligations to the Government. "It is Government money, they can wait" seems to be altogether too common an idea. The Administration Boards as well as ministers in charge of the Provincial Treasuries have had to call attention repeatedly, to this attitude of mind. It is being overcome but only by the use of rigid and decisive means. In the United States the same difficulty was encountered at first. It has been largely overcome by educational methods, by selling the bonds of the Land Banks in the districts where the borrowers themselves lived, thus showing to the borrowers that the money loaned was also borrowed in their interest, and where necessary by a rigid enforcement of the regulations regarding repayments.

With regard to interest rates in Canada there is little to add to the information brought out by the special committee of the House of Commons last year. The report of the Alberta Commissioner, made in 1922, after a careful study of that Province stated that the rate for short term loans from the Chartered Banks varied from 8 to 10 per cent "according to the condition of the district and the degree of competition present." The rate of interest on mortgages has been estimated to be 8 to 9 per cent the variation being due to similar causes.

These figures would probably hold for Western Canada as a whole. In the Eastern Provinces the interest charges would be lighter. The aim of the Provincial Credit Organizations has been to lighten this burden by fixing rates varying from 6 to 7 per cent. They have succeeded only in proportion to the business done as the total loans have not been enough to afford effective competition. It remains for consideration whether agriculture can prosper under such charges.



## SECTION VI

CONSIDERATION OF METHODS IN RELATION TO CANADIAN  
CONDITIONS**Long Term Mortgage Credit**

Even a casual study of the foregoing description of the various methods of dealing with the problem of long term or mortgage credit will show that, with variations in detail, three methods have been employed:

- (1) The private investor, under which should be included the private corporation restricted only by common law conditions;
- (2) Public corporations working under special legal restrictions with or without government support—
  - (a) conducting business in the interest of the borrowers;
  - (b) conducting business in the interest of lenders; both within restrictions fixed by law;
- (3) Direct government loans.

With regard to (1), it is probably true that a very large share of the mortgage business in every country is in their hands. Under this I would include the private individual who loans directly himself and companies organized under general laws, such as insurance companies and corporations without legal restrictions with respect to interest charges. I think it may be truthfully said that wherever the mortgage business has been left entirely in the hands of persons or companies operating in this way, the claim has ultimately been made that rates of interest have remained high. So far as I am aware, no country in the western world continues to leave the solution of the farm mortgage problem entirely in the hands of organizations developed in such a way. In times of special prosperity, things may work out all right under such a plan, but in times of depression, in nearly every country in the world other methods have always been resorted to, at least within the last century. As has already been pointed out, it was the demand for more reasonable interest and government supervision that led to the whole scheme of Farm Mortgage Bonds in Europe, which has since been copied in the United States and in the Provinces of Canada. It should be stated, however, that those who claim that at the present time there is no necessity for government co-operation—and that claim is made everywhere on the American continent—base their claim on the belief that competition in money lending will sufficiently regulate the business.

(2) (a) In every civilized country, corporations have been developed of the second type. The *Landschaft* in Germany, for example, is a public corporation organized under special legislation with definite restrictions upon its business, which aims to so improve and regulate farm mortgage security, so as to be able to secure cheaper rates of interest and to conduct its business solely in the interest of the borrowers.

There is no declared purpose in the foundation of the *Landschaft* to force people to lend money at unremunerative rates; the express purpose was to so liquefy the mortgage as an investment, to give it such backing, that as a security, it would rank in its call for money with the best kind of public investment. There is absolutely no question that they succeeded in doing this and by the institution of Long Term Mortgage Bonds, secured for the owners of farm lands loans in competition with governments and municipalities and at rates of interest equal to that which they obtained. The persons so investing

invested on their own initiative, because they were convinced of the value of the security offered. The only public assistance granted to them was supervision, so as to give public confidence as to the soundness and honesty of their methods of carrying on their business.

Under (2) (b) come such organizations as those authorized in Great Britain under the older Acts which are described earlier in this report. For example, the Land Improvements Company Act of 1853 gave to the Company authority to carry on business in land mortgages for long terms of years in connection with definite operations for the improvement of agriculture. In doing so, the British Government put the stamp of its approval upon the undertakings and, in order to give public confidence, insisted that every such undertaking should be subject to proper expert inspection and carried out by well established methods. In return for this approval, which, while it may appear to have been a restriction, in reality gave security to the undertaking, they made a rate of interest greater than 5 per cent illegal. The fact that all the monies have since been forthcoming to carry out the projects entered into by this Company, which is still operating on a large scale, shows that the regulation did really not work out as a restriction and that in all probability investors were glad of the opportunity to place their money in investments made secure by the regulations of the Act.

The *Crédit Foncier* of France is an organization of a similar character. The business is being conducted really in the interests of investors. It has been given a practical monopoly in France of public mortgage business and received, in addition, definite support from the Government in getting started. In return for the privileges granted and for the assistance given, the Government fixed a definite limit of interest charges to be made on mortgages, namely, not to be greater than six-tenths of one per cent above the rate at which bonds for the purpose could be sold to the public. The French Government does not guarantee these bonds, but the supervision and control, which have been exercised by Government experts have stabilized security and given such confidence to the French investor that he is willing to accept the rates of interest offered. In this case, inspection and supervision were established because it was demanded by the public and because without it, security of land mortgages could not be established in the minds of the public so as to give the necessary confidence to secure rates of interest commensurate with the security. It was firmly believed that private enterprise did not offer the necessary competition to give agriculture, because of its lack of organization, interest rates commensurate with the security, and that by organization the security could be so improved as to attract the attention of the investing public.

With regard to institutions organized under the Farm Loan Board of the United States, it has already been pointed out that, the Federal Land Banks function somewhat as the *Landschaft* in Germany, while the Joint Stock Banks of the same system resemble the *Crédit Foncier*. That is to say, they are institutions organized under public control and supervision in such a way as to give confidence to the investing public in the security offered for loans, but, at the same time, doing business in such a way that the profits beyond a guaranteed return to lenders go to the benefit of the institutions and, therefore, of the organized borrowers in the case of the Federal Land Banks but to the investors in the case of the Joint Stock Banks.

While the United States Government put behind the Federal Land Banks \$9,000,000 free from interest charge for a period of years, nevertheless, the policy pursued has been to bring them to a state of independence and to make agriculture, through them, guarantee its own financial well-being.

Already, these institutions have returned to the United States Government three-quarters of the capital originally granted to them and are now financing



## APPENDIX No. 1

the whole administration out of their own funds without any charge upon the public treasury. The Federal Farm Loan Board continues its supervision and care in the interest of the investing public. A definite restriction is placed by law upon interest charges and to assist them in living within these charges, a national selling agency has been authorized. The only other special privilege which they have in competition with other lending institutions is the freedom from the taxation of their bonds, a much discussed and controversial subject. With respect to that, I may say that I heard the principle of tax-free bonds universally condemned in the United States by all shades of opinion, but the Federal Farm Loan Board maintained that so long as state governments and municipalities, including towns and cities, had their bonds free from taxation, it was only fair that the bonds issued on farm mortgages should also be free from taxation. I think there can be no question that the issuing of tax-free bonds is working out enormously to the benefit of the well-to-do. Without question, also, it has been a benefit to the municipalities, and it has greatly assisted the Federal Land Banks in the sale of their bonds.

(3) The third method previously described is that of direct government loans. This has not been practised to any great extent, so far as my knowledge goes, elsewhere than on the American continent and in the British Dominions. In Great Britain, the New Act permits governments loans for a short period of years and is intended to give direct assistance to persons who, having bought lands on the basis of the stability of certain legislation, suffered because that legislation was repealed.

In most of the States of the United States, where loans are being made by the State governments, they are being made either directly or indirectly from the State Treasury. Even where bonds are only guaranteed by the governments, the officers administering the funds derived from them are State officers. The same is true, in the main, of what is being done in the Provinces of Canada.

There can be no question, I think, that in the administration of institutions dealing directly with governments, the dangers of political interference and of consequent loss to the public treasury is very great. Even in the United States, the work of the Farm Loan Board, removed as it is from the direct control of the Government, has suffered because men in public life have deemed it to be to their political advantage to speak critically of its policies without making an effort to get a knowledge of the facts.

When we come to consider the question of long term credit from the point of view of Canada as a whole, we are faced with the fact that no organization of a truly Canadian character has been developed. It is freely stated by those engaged in the farm mortgage business that none is necessary, that there is sufficient competition already in this business to take care of all the requirements of the country.

It is further claimed that the restrictions by way of taxes and priorities over mortgages have become so great in some, at least, of the Provinces of Canada that freedom of action is practically denied mortgage companies in carrying on their business. It was even suggested to me that with greater freedom of action and freedom from restrictions, the mortgage business of the country could be done at one to two per cent less cost than at present. Whether this be true or not, it is difficult to exactly determine. I have not yet found any lender who was willing to commit himself definitely to an agreement that, if restrictions were removed, prices on mortgages would be reduced. My judgment is, this is a matter of such serious importance that a conference between representatives of the mortgage organization of Canada and the governments responsible for the legal limitations complained of and the leaders of the farmers' organizations in the country should be held to discuss the whole



matter and to see whether some scheme could not be devised that would remove the suspicion and doubt that have arisen in connection with it.

I think it cannot be denied, referring especially to Western Canada, that the mortgage business is conducted in an exceedingly expensive manner and that reasonable co-operation between loan companies might greatly reduce the present cost of administration. The Federal Land Banks of the United States are to-day conducting their business on a margin of one per cent and are setting aside out of that a considerable margin for possible losses. Figures are not available for Canada as to the cost of administering the farm mortgage business, but I think there can be no doubt that it is much beyond these figures.

Further, there is without question, a considerable number of farmers in Canada, who, following the urgent advice given during the war and at the close of the war to continue production, find themselves, due to the heavy deflation, in the same position that farmers found themselves in England and the United States, and for whom some plan of amortization of loans is absolutely necessary, if they are to be able to continue on the land. This demand is being met to-day only in a very limited degree. It is very doubtful whether the Provinces alone can continue to develop long term mortgage business without taking risks greater than they should take in connection with their own financing.

Now, while I am firmly of the opinion expressed by Sir Horace Plunkett and already quoted, that agriculture must be a self supporting industry, I believe with equal confidence that there is a need in Canada for some organization co-ordinating the credit which the farmer has to offer in such a way as to make it more attractive to the man who wishes to loan his money at a reasonable rate of interest with proper security. Every country in the civilized world has ultimately been compelled to take such a step. When it is remembered that two per cent, under the ordinary amortization scheme, will amortize a farm mortgage in 20 years, therefore, a reduction of two per cent in interest is equivalent in 35 years to the capital debt, the significance of the foregoing statement will be apparent.

#### **Short Term Loans**

With regard to short term loans, as already pointed out, two things have been aimed at—

- (1) to organize the security offered for them so as to secure reasonable rates of interest, and
- (2) to increase the time of the loan, consistent with the seasonal production of agriculture.

It is quite apparent from the facts already related that three methods have been employed in securing these aims—

- (1) the better regulation of the security offered by means of co-operation with either limited or unlimited liability and government supervision;
- (2) by direct government assistance;
- (3) by a combination of the above.

With regard to (1), on the European continent, generally, the better organization of security so as to enable agriculture to be self-sustaining is the aim of the co-operative credit movement.

The Intermediate Credit Banks of the United States have been organized with the same idea in mind. They have been granted public organization and supervision and a portion of their capitalization, in order to make it possible that all charges shall ultimately be borne by the business in the interest of which they were instituted. A special regulation in the Act of incorporation prohibits the United States Government from guaranteeing any of their obligations.

## APPENDIX No. 1

With regard to (2), direct government assistance, broadly speaking, all State loans in the United States are being made through organizations having direct contact with the government, although in some of these, the principle of establishing local co-operative associations is followed.

In so far as short term loans are made under the Australian and New Zealand organizations, I think they may be considered as direct government loans.

(3) In many countries, government assistance and co-operation are combined. In France, as has been pointed out earlier in this report, the Bank of France, functioning as a Bank of Issue, is compelled to make annual grants for the support of the co-operative banking institutions. Theoretically, these advances are made by way of a loan, but I do not think that the possibility of their return is seriously contemplated.

In a limited sense, the Federal Intermediate Banks would come under this classification, as the capital of the banks has been provided by the Federal Government. On the other hand, these institutions are required to pay interest on the money borrowed and, further, a rather remarkable provision, that while the Government refuses to guarantee the securities of the banks, all the profits beyond a certain amount must be returned to the United States Treasury as a franchise tax for the right of doing business or to be applied to the United States debt.

The organizations in Canada, in the main, come under this classification, that is to say, they are based on the organization of co-operation, but are directed and supported by the Government.

With regard to the organization of short term credit in Canada, I think there can be no doubt that some reorganization in connection with it must take place. I do not wish any statement I make to be taken as a criticism of the operation of the banks in Canada. That is not my business. I have no doubt that the statement made by bank organizations as to the losses they have had in the last few years are absolutely true, but I think it is equally true that, excepting in the case of well established farmers, the short term bank loan at present is not sufficient to carry the farmer's operations. Many of the leading bankers of the country admit this to be so. The General Manager of the Canadian Bank of Commerce in the following statement recently made in an address, shows that the great bankers of the country are cognizant of the problem with which agriculture is confronted:—

“The discussion of the problem of financing the operations of Canadian farmers, especially in the West, occupied much of the time of the last session of Parliament, much evidence was submitted, but as yet no practical scheme seems to have been evolved. Unquestionably, in an ordinary industry, if the capital already invested cannot be profitably employed it is useless to look for more. But the importance of agriculture as a basic industry and the plight of so many farmers during recent years force the problem to be approached from no ordinary angle. During the discussion in Parliament this Bank suggested that a possible solution might be found in money borrowed by way of the issue of long term securities, the marginal risk to be carried by the issue of stock of a corporation to be formed for the purpose, the money for which would be found in such proportion as might be agreed upon by the Dominion Government, the Governments of the various Provinces interested, the banks and other large corporate interests who share in financing the farmers. The details might prove difficult to work out, but the plan of financing such requirements by long term securities, rather than from moneys repayable on demand, is unquestionably sound from the economic point of view.”



There can be no doubt that the establishment in Canada of a Short Term Credit System based on the formation of Local Associations for co-operative purposes would be much more difficult than in most European countries, or even in the United States. The uniformity of the population and the permanency of family relations create in those countries the exact conditions under which co-operative methods flourish. Yet, I think that experience has already shown that a sound plan along these lines could be worked out under proper supervision and control. It would be a definite step toward the realization ultimately of financial control and, therefore, independence by the farmers themselves. Discounting facilities would have to be provided by some central agency, either a corporation specially created, as suggested by the President of the Bank of Commerce, or organized and to some extent, at least, capitalized by the Government, as in the United States and in France. This would be absolutely necessary, unless, through the organization of Provincial Savings Banks, sufficient money could be found, a very doubtful contingency for some years to come.

One word in conclusion—It ought to be clear to anybody that Canada is slowly passing through the stage in her agricultural development that the United States was passing through some years ago, viz., the best lands of the country have been taken up, wealth accumulating from the rise in land prices will, in a large measure cease, and land mortgages based on growing prices will be harder to carry. I have no doubt that competition from the United States so far as cereals are concerned will grow less and that, in spite of high tariffs, the United States must buy from us eventually, but competition from a revived Europe and other parts of the world will increase. If we desire to have Canadian agriculture to maintain its place in world competition in the future, the time to begin to plan for the rational administration both of its finances and its scientific development is the present.

Should the Government deem it wise, during the present session of Parliament, to take action with regard to the establishment of a plan for the development of long term and short term credit, I would respectfully urge that an intensive study of this problem be continued. If it is considered wiser to wait for further maturity of opinion on the subject, then I would respectfully suggest that, as the period given for the preparation of this report has hardly been sufficient to study the problem from the point of view of the communities seeking benefit, that I be permitted to continue the study of the problem in the interim.



## WITNESSES

Bill, Mr. Austin, Revenue Division, Post Office Dept., Ottawa.....	385-398
Edwards, Mr. George, Chartered Accountant, Toronto, Ont.....	3-62, 301-316
Finlayson, Mr. George D., Superintendent of Insurance, Department of Finance, Ottawa, Canada.....	187-205, 338-343
Neill, Mr. C. E., Acting President, Canadian Bankers' Association, Montreal, Que.....	249-286
Pole, Mr. John W., Chief National Bank Examiner, Washington, D.C.....	76-149
Ross, Mr. Henry T., Secretary, Canadian Bankers' Association, Toronto, Ont.....	317-338, 384-385
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## EXHIBITS

No.	PAGES
1. Examiner's Report on Conditions of Bank. Filed by Mr. J. W. Pole. Read into Evidence.....	78
2. Schedule of loans and amounts loanable above 10 per cent of Bank's capital and surplus. Filed by Mr. J. W. Pole. Read into Evidence.....	80
3. Report of earnings, expenses and dividends. Filed by Mr. J. W. Pole.....	<i>Not printed</i>
4. Abstract of Reports of Conditions of National Banks No. 142. Filed by Mr. J. W. Pole. Read into evidence.....	91
5. Comptroller's annual report. Dec. 31, 1923. Filed by Mr. J. W. Pole. Read into Evidence.....	106
6. The Federal Reserve Act, as amended to March 4, 1923. Filed by Mr. J. W. Pole.....	<i>Not printed</i>
7. Chart. Federal Reserve Districts. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
8. Comptroller's Annual Report, Dec. 6, 1920. Filed by Mr. J. S. Williams. Read into Evidence.....	153
9. Comptroller's Annual Report, Dec. 6, 1915. Filed by Mr. J. S. Williams. Read into Evidence.....	175
10. Comptroller's Annual Report, Dec. 6, 1915. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
11. Comptroller's Annual Report, Dec. 1, 1919. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
12. Form. Report submitted by National Banks. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
13. Form. Application for rediscount. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
14. Forms. Examiner's Report on National Banks. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
15. Forms, used in connection with Federal Reserve system. Filed by Mr. J. S. Williams.....	<i>Not printed</i>
16. "The tragedy of artificial 'Deflation' ". Filed by Mr. J. S. Williams. Printed as an appendix.....	cxxviii
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18. Memorandum re Guarantee of Bank Deposits filed by Mr. George D. Finlayson. Read into evidence.....	341
19. Application under the Finance Act. Filed by Mr. J. S. Saunders. Printed as appendix.....	cxxxii
20. Pledge Agreement under the Finance Act. Filed by Mr. J. S. Saunders. Printed as appendix.....	cxxxiv
21. Forms, cheques, pass-books, etc., used in connection with Post Office Savings Banks. Filed by Mr. Austin Bill.....	<i>Not printed</i>
22. "McKeown Report" on Home Bank referred by House. Printed as appendix.....	xvii
23. "Tory Report" on Agricultural Credit. Referred by House. Printed as appendix.....	xvi
24. The Guaranty of Bank Deposits by W. N. Mitchell. Printed as appendix.....	cxxxvii

## EXHIBIT

(THIS CHART, WITH IMMATERIAL REVISIONS, WAS PRINTED

In a letter to Senator Overman, December 2nd, 1921, concerning the Extravagance and Mismanagement of the Federal Reserve Board, (December 19, 1921,) John Skelton Williams said: "I ask attention to the important fact that not a single one of the many public interest, to make against the administration of the Reserve System has ever been refuted. They stand today unshaken."

Compiled from Official Sources

by  
**JOHN SKELTON WILLIAMS**  
Formerly

First Assistant Secretary of the Treasury,  
Comptroller of the Currency, and Ex-officio member  
of the Federal Reserve Board, and Director  
of the Divisions of Finance and  
Purchases of the United  
States Railroad  
Administration

"Our Federal Reserve System, A National Blessing"

## THE TRAGEDY OF

LIABILITIES OF FAILED BUSINESS HOUSES 1921, \$627,401,838—NEARLY SIX TIMES AS GREAT  
(THESE FIGURES ARE EXCLUSIVE OF MANY THOUSANDS OF FARMERS AND  
SUICIDES REPORTED IN U. S. FIRST SIX MONTHS 1921, 7,016. SAME PER

The following tables show the average monthly prices of leading AGRICULTURAL, MINING AND MANUFACTURING commodities for each month for the period from May, 1920. (Figures have been

"Out of Thine own Mouth Will I Judge"

THE COLLAPSE IN PRICES OF AGRICULTURAL AND OTHER  
ENFORCEMENT OF THE FEDERAL RESERVE BOARD

	CORN No. 3 Chicago	COTTON Middleling N. Orleans	SUGAR Granulated N. Y.	WHEAT No. 2 Red Winter Chicago	CATTLE Steers Chicago	HIDES Packers Heavy Native Steers	HOGS Light Chicago	WOOL Ohio Grades	YELLOW Pine fl'ng N. Y.
1920									
JANUARY.....	1.47	.403	.1537	.263	15-93	.40	15-12	1-23	112.

(For the four months from the end of January, 1920, to the end of May, 1920, the Loans and Discounts and Bought increase, rather than a decline in commodity prices. Corn at Chicago averaged 1.47 in January and advanced to 1.98 in May. Copper was fairly steady.)

MAY.....	1.98	.403	.2247	2.97	12-60	.35	14-75	1-16	160.
JUNE.....	1.83	.403	.2120	2.89	15-03	.34	15-35	1-00	160.
JULY.....	1.53	.395	.1910	2.80	15-38	.29	15-88	.90	160.

(From the end of May to the end of July there was a reduction of about \$100,000,000 in the credits by the Federal Reserve Board. As the table shows commodity prices responding to the deflation policies of the Reserve Board averaged .338 in August. Wheat from 2.97 in May to 2.47 in August. Wool from 1-16 in May averaged .87 in August.)

AUGUST.....	1.53	.338	.1490	2.47	15-35	.28	15-73	.87	157.
SEPTEMBER.....	1.29	.270	.1426	2.49	15-25	.28	17-06	.83	157.

(The aggregate credits extended by the Federal Reserve System after declining for June and July from the May level and pressure for the payment of loans was actively enforced in other directions and prices continued to fall. Bank deposits declined, demands without forcing the collection of loans entailing many bankruptcies. Just at this time, September Farmers' Associations and business men throughout the country, and by the Comptroller of the Currency whose protests were of no avail. The figures in this table show that from the end of October, 1920, to the end of August, 1921, the contraction proceeded prices continued to tumble.)

The PRESSURE exacted was illustrated in the small country national bank (nearly all of its loans to farmers) to for the use of \$112,000 for two weeks September 15 to October 1, 1920. A part of the excess interest exacted from member banks was made.

OCTOBER.....	.87	.208	.1078	2.20	14-68	.25	14-78	.72	152.
NOVEMBER.....	.80	.178	.096	2.05	14-57	.23	12-14	.69	124.
DECEMBER.....	.73	.144	.080	2.01	12-09	.19	9-66	.54	124.
1921									
JANUARY.....	.65	.145	.075	1.96	9-84	.16	9-67	.54	110.
FEBRUARY.....	.63	.132	.070	1.91	9-31	.13	9-70	.54	95.
MARCH.....	.61	.110	.078	1.67	9-56	.11	10-30	.52	95.
APRIL.....	.55	.111	.072	1.38	8-71	.10	8-85	.52	91.
MAY.....	.60	.117	.063	1.56	8-42	.11	8-45	.50	91.
JUNE.....	.60	.110	.056	1.43	8-09	.13	8-25	.49	91.
JULY.....	.60	.114	.054	1.22	8-40	.13	10-20	.49	91.
AUGUST.....	.55	.129	.058	1.23	8-77	.14	10-39	.49	92.

(From May, 1920, to August, 1921—covering exactly the period of the appalling and unprecedented drop in prices of Agricultural commodities—FOURTEEN HUNDRED AND TEN MILLION DOLLARS (1,410,000,000) and coincidentally the country from the greatest annihilation of property values in the Nation's history. The baneful effects of the Federal Board's plans and policies, October, 1920, has been drastic and continuous.

From January 1, 1920, to September 6, 1921, the total DEPOSITS of the National Banks of the United States shrank from this period the Federal Reserve Banks, instead of easing the situation by granting accommodations to enable the member banks to continue their business, Loans that the contraction or deflation in the credits which had been extended by the 12 Federal Reserve Banks showed, than 1,400 Million dollars. The member banks having to pay their Depositors and repay the Reserve banks at the same time.

Between the end of October, 1920, and the end of August, 1921, the amount of Federal Reserve Notes in circulation also shrank and is all the more significant when we realize that a large portion of the Reserve Notes outstanding were issued against gold.



## APPENDIX No. 1

## No. 16

## IN THE CONGRESSIONAL RECORD OF FEBRUARY 28, 1922)

Reserve Board, (which, by unanimous consent of the United States Senate, was printed in the Congressional Record on serious criticisms and charges which it has been my unpleasant duty, in behalf of our Federal Reserve System, and in the taken and unshakable."

ing; Its Mis-Management a Public Calamity"

EFFECT OF "DEFLATION" ON  
RAILROAD TRAFFIC

Freight traffic on the principal railroads last year decreased 23.3 per cent. compared with 1920, the greatest decline, relatively and absolutely, that the railroads ever experienced in a single year. Net ton miles total 344,167,000,000 during 1921, 103,390,000,000, less than in 1920.

## ARTIFICIAL "DEFLATION"

AS IN 1919 (\$113,391,237) AND OVER THREE TIMES AS MUCH AS IN THE PANIC YEAR 1907. INDIVIDUALS WHO ALSO BECAME BANKRUPT AND RUINED IN THE SAME PERIOD)

IOD LAST YEAR 2,996; INCREASE IN DEATHS BY SUICIDE, SIX MONTHS 4,120.

ING products for the month of January, 1920, and for each month from May, 1920, to August, 1921, inclusive; also the amount compiled from official monthly issues of the Federal Reserve Bulletin published by the Federal Reserve Board.)

Thee, Thou Wicked Servant."—Luke 19:22.

COMMODITIES WAS CONTEMPORANEOUS WITH THE  
RDS'S RUINOUS "DEFLATION" POLICIES.

COTTON Yarns Boston	LEATHER Sole hemlock Chicago	STEEL Billets Bessemer Pittsburg	COPPER Ingot N. Y.	LEAD Pig desil- verized	PETROLEUM Crude Penna. at wells	PIG IRON at furnace	TOTAL OF ALL LOANS and Discounts (including "Bought Paper") held by all 12 Federal Reserve banks. (As officially reported at the end of each month.)
·72	·56	48-00	·193	·087	5-06	37-75	\$2,736,670,000

Paper held by the 12 Federal Reserve Banks show an increase of about \$200,000,000, and coincidentally there was an in May. Wheat advanced from 2-63 in January to 2-97 in May. Cotton maintained its price. Cotton Yarns advanced;

·76	·57	60-00	·190	·085	6-10	43-25	2,938,031,000
·72	·57	60-00	·190	·084	6-10	44-00	2,830,979,000
·70	·57	62-50	·190	·086	6-10	45-75	2,836,935,000

Reserve System. Disquieting reports were spread as to the deflation policies of the Reserve System and the downward Board proceeded to tumble. Corn which had averaged 1-98 in May declined to 1-52 in August. Cotton from ·403 in

·63	·55	61-00	·190	·089	6-10	48-10	2,989,124,000
·54	·51	58-25	·186	·081	6-10	48-50	3,012,088,000

increased somewhat to the end of October as a result of advances for the crop movement, but the curtailment of credit were shrinking and the Reserve System failed to extend the aid which would have enabled member banks to meet and October, 1920, urgent pleas for a change of policies were made to the Reserve Board by Senators, Congressmen, both to the Secretary of the Treasury and to the Board against the Board's destructive policies are of record, but all the DEFLATION OF CREDITS BY THE RESERVE SYSTEM WAS STEADY AND CONTINUOUS and as

which a Federal Reserve Bank actually charged interest as high as 87½ per cent—average about 45 per cent. per annum, banks was refunded after Mr. Williams in letters and public addresses had demanded of the Reserve Board that restitu-

·43	·49	55-00	·167	·073	6-10	43-75	3,099,672,000
·36	·47	49-70	·145	·062	6-10	36-50	2,983,103,000
·31	·41	43-50	·136	·047	6-10	35-00	2,974,836,000
·28	·40	43-50	·128	·049	5-77	30-00	2,622,174,000
·27	·38	42-25	·128	·046	4-13	27-50	2,560,013,000
·24	·37	38-40	·122	·040	3-00	24-20	2,356,160,000
·23	·37	37-50	·124	·042	3-18	22-87	2,180,178,000
·24	·37	37-00	·128	·049	3-35	22-00	1,995,051,000
·25	·37	37-00	·128	·045	2-65	20-75	1,782,951,000
·24	·35	32-25	·125	·044	2-25	19-37	1,661,036,000
·25	·34	29-60	·117	·044	2-25	18-20	1,527,255,000

tural products—the actual "contraction" or "deflation" of regional Reserve Bank credits amounted to the huge sum of Ocean to Ocean, and from Canada to the Gulf and the Mexican Border experienced the most "crushing losses" and the policies were seen and felt even before the aggregate of its Loans and Discounts began to show the shrinkage which, since

17,866 Million dollars to 14,561 Million dollars—the total loss in Deposits for this period being 3,305 million dollars. During banks to meet these unprecedented demands upon them, exerted such pressure in requiring them to pay-up or curtail their from the end of May, 1920, to the first of September, 1921, the colossal and destructive contraction as above stated, of more time, called in loans right and left, causing an unprecedented collapse in values and widespread ruin.

from \$3,351,000,000 to \$2,481,000,000, a CONTRACTION OF \$870,000,000. This contraction in the circulating currency GOLD RETIRED FROM CIRCULATION and NOT against commercial credits with only the statutory percentage of



## SUMMARY

Total Loans and Discounts and "Bought Paper" held by all 12 Federal Reserve Banks, May 28, 1920.....	\$ 2,938,031,000
Total Loans and Discounts and "Bought Paper" held by all 12 Federal Reserve Banks, August 31, 1921...	1,527,255,000
Total Loans and Discounts and "Bought Paper" held by all 12 Federal Reserve Banks, January 25, 1922..	932,882,000
Actual CONTRACTION in credits extended by the Federal Reserve System, May 28, 1920 to August 31, 1921	1,410,776,000
May 28, 1920 to January 25, 1922	2,005,149,000

which means that the credits which were being extended by all Federal Reserve Banks on August 31, 1921 amounted to only 52% of the amount outstanding May 28, 1920, and on January 25, 1922, the amount of credits outstanding was only 32% of the figures for May 28, 1920.

AVERAGE price for the 16 leading products, shown in the above table for the month of May, 1920, was..... 87.12

AVERAGE price for the 16 leading products, shown in the above table for the month of August, 1921, was..... 26.87

NOTWITHSTANDING THESE FACTS CERTAIN OFFICIALS OF THE RESERVE SYSTEM ARE DISSEMINATING PROPAGANDA ALLEGING DIRECTLY CONTRARY TO THE RECORD, THAT "DURING THE WHOLE PERIOD OF FALLING PRICES THE FEDERAL RESERVE BOARD WERE SUPPLYING LARGELY INCREASED CREDIT FACILITIES AND ISSUING A CONSTANTLY INCREASING VOLUME OF FEDERAL RESERVE NOTES"

## VIEWS OF LEADING MEN AT HOME AND ABROAD

The paralyzing and destructive deflation policies of the Federal Reserve Board which have been so world-wide in their effects contrast most vividly with the views of the ablest and best thinkers and leaders of our own and other countries.

The following extracts from the expressed opinions of eminent authorities are merely examples of countless others:

HON. REGINALD MCKENNA, of England, formerly Chancellor of the Exchequer, now President of the London Joint City and Midland Bank, the largest bank in the world:

"I think I have said enough to show that an attempt at monetary deflation of this kind can only end in the strangulation of business and widespread unemployment. \* \* \*

"The consequences of a continuous fall in prices entailed by dear money and restriction of credit, and accentuated by heavy taxation, must be complete stagnation of business. \* \*

SIR EDWARD HOLDEN, late President of the London Joint City and Midland Bank:

The President of the British Banking Reform League in referring to an address delivered several years ago by Sir Edward Holden on the "Depreciation of Securities in Relation to Gold," said.

"In that illuminating address Sir Edward showed conclusively that the maximum amount of trade which is possible depended upon the volume of bank loans allowed, and that the extent to which loans could be granted depended not upon the demands of trade, nor upon the amount of securities offered, but upon the amount of legal-tender reserves controlled by the banks."

LORD LEVERHULME, probably the greatest industrial leader in the British Empire:

"The process of too rapid deflation is undoubtedly the cause of the present unemployment and trade stagnation. \*

"The prices of commodities rose to the extreme limit during the war, and their reduction was a prime necessity, but the fall has been too sudden for adjustment. This deflation has been accomplished through the banks calling in loans which were used to finance stocks at high prices, and the effect of the forced realization of these stocks has been to drive down price of commodities below the cost of production."

(Of Lord Leverhulme, a distinguished English writer in his well-known book, "The Mirrors of Downing Street," says: "I suppose that nobody will now dispute that Lord Leverhulme is easily the foremost industrialist, not merely in the British Isles; but in the world. I can think of no one who approaches him in the creative faculty. Not even America, the country of big men and big business, has produced a man of this truly colossal statue.")

THE PRESIDENT OF THE BRITISH BANKING REFORM LEAGUE, Mr. Arthur Kitson, in acknowledging receipt of one of John Skelton Williams' addresses on the deflation policies of the Federal Reserve Board which had been sent him by request, said in his letter to Mr. Williams:

"I agree with all that you have written. We have been experiencing the same troubles in this country that you have had in the United States, and from identically the same cause. Our treasury officials under the influence of the big money lenders undertook to deflate our currency. \* \*

"The public stopped buying, business collapsed, firms closed their doors, and we have at the present time the greatest roll of unemployed that we have ever had since the 'hungry forties.' \* \*

The same well-known authority in an address published in 1920, said:

"The contraction which followed the Napoleonic wars when our statesmen destroyed the 'cheap' money which had enabled Great Britain to carry on industries during the long war period from 1797 to 1815, and substituted the costly and inadequate gold basis brought about the great fall in prices and that era of business depression which gave rise to the corn law agitation resulting in the Chartist riots and the raise of the free trade movement.

"Neither free traders nor tariff reformers seem to have understood that that period of social misery was directly attributable to the Government's contraction of the money supplies.

MORETON FREWEN, eminent English economist and publicist, a year ago, in discussing the world crisis:

"What, then, are the common denominators which best account for the universality of that disaster now impending over the New Year? I have pointed out one, namely, the deflation of credits and currencies. It is enough to say that if this intentional and malevolent destruction of credit is followed to its logical conclusions men's hearts may well fail them everywhere for the days that are at hand."

THE GOVERNOR OF THE BANK OF FRANCE, properly regarded as one of the world's most eminent banking authorities, in his annual report a year ago, declared:

"We have welcomed, whether by means of rediscount or by direct discount, all paper whose creation responded to the legitimate needs of commerce and production. By this liberal policy, to which we have remained and always will remain faithful, we expect to support with all our power the activities of widely varying business enterprises which in France are needed to lessen the violence of the crisis:"

PROFESSOR GUSTAV CASSEL, an economist of international reputation, in his recent report submitted to the League of Nations:

"The downward movement of prices has not, as is sometimes assumed, been merely a spontaneous result of forces beyond our control. It is essentially the result of a policy deliberately framed with a view to bringing down prices and giving a higher value to the monetary unit. \* \*

"The world's work has been brought to a standstill to a degree that we have never witnessed before, and unemployment has risen to alarming figures, particularly in countries where the policy of deflation has been applied most severely."

## APPENDIX No. 1

PROFESSOR J. LAURENCE LAUGHLIN, Professor emeritus of the School of Political Economy, University of Chicago:

"A crisis comes because credit has been unduly expanded in a period of prolonged prosperity; in an optimistic spirit men have entered into transactions beyond their actual means, as is shown when the test of actual payment is exacted, and in a time of fright collateral as well as goods falls in price. IN SUCH A SITUATION LIQUIDATION NEEDS TIME IF DISASTER IS TO BE PREVENTED."

" \* \* the great need is some means—whatever it may be—which will enable a bank to make loans to a client, who can thereby be saved from failure and from hasty and ruinous liquidation."

PROFESSOR IRVING FISHER, Professor of Political Economy, Yale University:

The newspapers of January 31st, 1922, in dispatches from London quote Prof. Fisher, as pointing out in an address before the London School of Economics, at the London University, that the fundamental cause of the collapse in prices in this country was the abrupt way in which the Federal Reserve System raised discount rates under the "false idea that they must get back the so-called normal of pre-war." Continuing the press dispatch quoting, Professor Fisher says:

"The idea of suddenly wrenching back price levels when they had reached the heights of 1920 to 1913 level, whilst it did bring about justice to contract parties who had entered into contracts before 1913 produced a frightful injustice to the much larger number who had contracted at these high price levels."

"Consequently," says the dispatch quoted, "Professor Fisher held it to have been a very great mistake of policy of the Federal Reserve Board to have raised the rates of discount so high and to have produced this fall of prices."

The late A. BARTON HEPBURN, a leading financier of New York, and former Comptroller of the Currency, upon his return last summer from a visit to the Far East was quoted by the Associated Press as follows:

RESERVE BOARD DEAF TO REPEATED WARNINGS. October 18, 1920, the Reserve Board was warned by John Skelton Williams, then Comptroller of the Currency, and ex-officio member of the Board in the following language: "The plans and policies which have aided in bringing about deflation in the great staple commodities should be at once taken up for consideration and revised as far as may be necessary to meet present and changed conditions. If this is not done speedily, I am fearful as to the consequences which may ensue." Three days later, October 21, 1920, in a letter to Secretary of the Treasury Houston, Mr. Williams said: "The strain upon the business fabric of the country is, in some respects, unparalleled and I do feel that the time has come for the exercise of such salutary and constructive powers as may be at our command. \* \* The situation \* \* has become more aggravated of late, and unless relief can be found an increase in bank failures, I believe, will be inevitable."

The Board's answer to these and other warnings was, more pressure and deflation—the reduction in "credits" by the Federal Reserve Banks for the 12 months ensuing from October 15, 1920, to October 26, 1921, was more than \$1,722,000,000, every month showing a contraction. The actual contraction in Federal Reserve Notes in circulation same 12 months period, was \$944,492,000. The shrinkage and annihilation of property values which accompanied this "deflation" of credits exceeds the wealth of empires. The world's history furnishes no parallel for the heart-rending wiping out of values and destruction of enterprises, homes and fortunes, large and small, which we have witnessed in the past 18 or 20 months, while the Reserve Board was conducting its fatal experiments.

Mr. Williams kept up his efforts to secure a reversal of the Board's destructive policies but his remonstrances were unavailing. In a letter to the Reserve Board Governor, January 17, 1921, he said "It is entirely true that I wish to go on record. \* \*—I wish to be recorded definitely as having done my utmost to urge our Board to saving or palliative action and consideration for the troubles of the public and thereby at least free myself from the censure that will fall on us with crushing force if we omit any possible effort to mitigate present and real suffering or to avert disaster; although the consideration of personal exculpation is, of course, slight and negligible in comparison with my main purpose and hope, which are to obtain from the Board some prompt and effective action for relief."

"Japan is backing up the banks in lending funds at a low rate of interest to struggling farmers who would otherwise go under to the detriment of commercial life."

Contrast the intelligent policy of the Banks of Japan with the Federal Reserve which for example, in Colorado, Mississippi and Alabama charged in some cases 22 per cent. and 31 per cent. and in one instance as high as 87½ per cent., to member banks whose loans were mainly to farmers.

JAPAN. A newspaper published in TOKYO, JAPAN, in April, 1921, discussing trade between the United States and China referred to an instance of machinery purchased by a Chinese firm on a four months' sight draft, said significantly:

"WHEN THE FEDERAL RESERVE BOARD CALLED IN CREDITS, the firm was told that they would have to pay cash on delivery. This almost threw them into bankruptcy." The newspaper pertinently adds:

"The Chinese memory is a long one."

Views of UNITED STATES SENATORS AND REPRESENTATIVES.

The Joint Commission on Agricultural Inquiry, composed of prominent Senators and Representatives of both political parties, says in its report recently submitted to Congress.

"The debacle of prices in 1920 and 1921 reduced the farmer to a condition worse than he has suffered under for 30 years. \* \* Farmers are having the greatest difficulty in paying the debts incurred in producing the crops of 1920 and in securing credit necessary for new production. The Commission believes that these difficulties are due in a measure to the credit restrictions and limitations of the past 18 months and in part to the fact that the banking machinery of the country is not adequately adapted to the farmers' requirements. \* \* The Commission is of the opinion that a more liberal policy could have been adopted in the latter part of 1920 and the early part of 1921, and that the adoption of such a policy would have served to arrest in part the tide of deflation and to reduce the hardships and losses incident thereto."

EXHIBIT No. 19

APPLICATION BY

under the Finance Act, 1923.

TO THE HONOURABLE

THE MEMBERS OF THE TREASURY BOARD:

The Bank (hereafter called "the Bank") hereby applies under the provisions of the *Finance Act, 1923*, for a loan of dollars or such less amount as may be approved by the Treasury Board and offers as security therefor the securities set forth in the Schedule attached hereto.

The Bank will repay the amount advanced with interest at the rate of . . . . . per cent per annum on or before the first of May 19 . . . .

The Bank submits herewith (*or undertakes to furnish as soon as possible as the case may be*) a certified copy of a resolution of the Board of Directors of the Bank authorizing this application and the pledge of the securities specified.

The Bank will upon approval of the loan deposit the securities with the Minister of Finance or for his account with a depository authorized by him to receive the same accompanied by a duly executed pledge agreement in the form approved by the Treasury Board.

Dated this day of 19

The Bank

by . . . . .  
President (*or Vice-president or other Director*  
authorized by resolution of the Board).

. . . . .  
General Manager *or other officer* authorized  
by resolution of the Board).

Approved for an advance  
of \$

. . . . .  
Secretary of the Treasury Board.

Ottawa,



## APPENDIX No. 1

## THE FINANCE ACT, 1923

SCHEDULE giving description and brief particulars of securities to be deposited pursuant to  
attached application by the Bank

DESCRIPTION AND PARTICULARS	Bank's valuation	Valuation by Treasury Board as basis for advance

The

Bank

by.....

President (or Vice-President or other Director  
authorized by the Board).

.....

General Manager (or other officer authorized  
by the Board).

EXHIBIT NO. 20

PLEDGE AGREEMENT  
under the Finance Act, 1923.

The undersigned Bank hereby acknowledges to owe to His Majesty the King, the sum of \_\_\_\_\_ dollars together with interest at the rate of.....per cent per annum, which amount is to be paid to His Majesty the King on or before the 1st day of May, 19....

As security for the payment of the said indebtedness and interest the undersigned Bank has concurrently with the execution hereof deposited with the Minister of Finance (or with \_\_\_\_\_ for account of the Minister of Finance) in trust for His Majesty the securities set forth in Schedule "A" hereto annexed, and hereby assigns and transfers the same to His Majesty as such security aforesaid.

The regulations, terms and conditions of pledge, set forth in the Schedule "B" hereto together with all additions to and modifications thereof from time to time made by the Treasury Board shall form part hereof and the undersigned Bank agrees to be bound thereby and from time to time to execute all such further instruments and documents as may be reasonably required by the Minister of Finance for the purpose of giving effect thereto.

Executed this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_  
The \_\_\_\_\_ Bank

by .....  
President (or Vice-President or other  
authorized Director).  
.....  
General Manager (or other officer  
authorized by resolution of the Board).

SCHEDULE A.

THE FINANCE ACT, 1923.

Schedule giving description and brief particulars  
of securities pledged and subject to the  
attached agreement.

Description and Particulars.

The \_\_\_\_\_ Bank

by.....  
Presiding (or Vice-President or other  
Director authorized by the Board).  
.....  
General Manager (or other officer  
authorized by the Board).

## SCHEDULE B.

## REGULATIONS, TERMS AND CONDITIONS APPLICABLE TO ALL ADVANCES TO CHARTERED BANKS OF CANADA UNDER THE FINANCE ACT, 1923.

1. Advances shall bear interest from the date on which they are respectively made.

2. Interest shall be computed at the rate of five per cent per annum or such greater rate as may from time to time be fixed by the Treasury Board.

3. Interest shall be payable quarterly on the last day of the months of February, May, August and November, the first payment to be made on the first of such days which shall happen after the making of each advance.

4. Advances may be made at the office of the Receiver-General of Canada at Ottawa, or at the office of any Assistant Receiver-General. All payments shall be due at the office at which the advance was made.

5. So long as the Bank is not in default it shall be entitled upon request to receive all interest and dividends which shall be paid upon the pledged securities or the coupons or other interest warrants therefor.

6. The Bank shall at all times maintain such margin in value of pledged securities over and above the advances thereon as may be required by the Treasury Board.

7. As advances are repaid the Minister may direct the redelivery to the Bank of such securities as he may approve.

8. All advances shall be repayable on or before the 1st day of May in each year.

9. If the Bank shall make default in payment of the advances when due or meanwhile in the payment of interest, or in the maintenance of margin, or shall suspend payment of its liabilities, the whole amount of the indebtedness and interest shall, without any notice or demand, become immediately payable and the Minister or his appointee may forthwith, or at any time thereafter in his discretion without notice, without demand, without advertisement or any other formality, all of which are hereby waived, sell and dispose of all or any of the pledged securities by public or private sale or on any exchange in Canada or elsewhere and may buy in at any sale by auction and vary or rescind any contract of sale and may transfer and deliver the securities so sold to the purchasers thereof.

10. The Bank shall take up all maturing securities on or before the maturity thereof either by paying the amount required to obtain the release thereof or by the substitution of other approved securities of a like principal amount, or partly in one mode and partly in the other.

11. No obligation to collect either principal or to enforce or realize upon any of the pledged securities shall rest upon His Majesty, or the Minister or any depository, and the duty of giving notice of dishonour of or protesting any security shall remain with the Bank. His Majesty or any person on his behalf may, however, exercise without responsibility for loss or otherwise all or any of the rights and remedies of a holder of such securities.

12. All moneys realized from the pledged securities after deducting all expenses, commissions and costs, including Solicitor and Counsel fees in connection therewith, shall be applied on the indebtedness of the Bank to His Majesty, and any surplus shall be paid to the Bank. All accounts certified to be correct by the Department of Finance shall be conclusive.

13. Notwithstanding the pledge of securities His Majesty, shall in respect of the indebtedness and interest, be entitled to all other rights and remedies against the Bank vested in him by law, and shall not be obliged to realize upon the pledged securities or any of them.



14. His Majesty shall not be responsible for the loss of any of the pledged securities while in transit to or from the Department of Finance or the office of an Assistant Receiver-General.

15. "Minister" shall mean the Minister or Acting Minister of Finance, or any Deputy or Assistant Deputy Minister or any appointee of the Minister or Acting Minister. "Bank" shall mean the pledging Bank.

16. For the purpose of uniformity it is declared that the Agreement of Pledge and the rights and obligations of His Majesty and the Bank respectively thereunder and under these regulations shall be interpreted and governed by the law of the Province of Ontario.

17. These regulations and the terms and conditions affecting the deposit of securities and the agreement of pledge thereof may from time to time be added to, varied or modified by the Treasury Board, and all such additions, variations and modifications shall apply to all agreements of pledge then existing, as well as to those thereafter entered into with the same effect as if embodied therein.

18. Whenever documents of title covering grain or other commodities are released under the provisions of Section 4 of the Act, the Bank shall be required to execute a declaration of trust in the following form:—

"Whereas the Minister of Finance, under the authority of the Finance Act, 1923, has advanced to the Bank .....through its Branch at .....the sum of.....dollars (\$.....) upon the pledge of the following securities, that is to say:—(a)

((a) Here insert description and amount of each promissory note or bill of exchange and the relative documents of title.

And whereas the Minister, under the authority of Section 4 of the said Act, has permitted the bills of lading and other documents of title covering the grain and/or other commodities underlying the above mentioned securities to go forward under the control of the Bank with the said grain and/or other commodities;

The said Bank.....hereby acknowledges receipt of the said bills of lading and other documents of title.

The said Bank.....receives the above as trustee for the Minister under the provisions of the said Act.

The said Bank.....further undertakes to keep this transaction separate from any others and to remit to the Minister the entire net proceeds when realized or a portion thereof sufficient to pay off the amount of the advances above mentioned and the interest thereon unless the said advances and interest have sooner been paid off.

The said Bank undertakes to cover the grain and/or other commodities by insurance against loss by accident, fire, or otherwise and to hold the policy or policies on behalf of the Minister.

Dated.....

Bank .....  
Branch.....  
.....  
Manager

## EXHIBIT No. 24

"The Guaranty of Bank Deposits. Submitted as Term Paper in "Advanced Banking," Pol. Econ. 31 Spring Quarter, 1924, University of Chicago."

## FOREWORD

The guaranty of bank deposits as it has developed in our middle west has been a very interesting experiment. While its early sponsors eagerly siezed upon it as political issue, it secured widespread approval no doubt, because it was popularly thought to be the proper corrective of a real evil, seemingly inseparable from free banking under frontier conditions. If there has been misconception and no lack of self interest on the part of the advocates, neither has the opposition been free from bias and self interest. Much of the bibliography of the question reflects this clash of interests.

In this paper it has been our aim to set down the main points much as one might describe an experiment being conducted under laboratory conditions. For this reason some time is devoted in the beginning, to a discussion of what seem to be the most significant of the theoretical aspects of the study before proceeding to describe the actual working out of the experiment itself and the conclusions which may be drawn therefrom. No attempt has been made in the text to indicate completely the exact sources of all the materials presented. All the bibliographical references listed at the end of the study have been drawn on freely, the magazine articles referred to, being of particular value with respect to the recent seemingly conclusive developments.

W. N. MITCHELL.

June 2, 1924.

## CONCLUSIONS

The conclusions which now must seem inevitable are that this scheme which had such a short time ago apparently earned an honourable place in State banking practise, is a dismal failure. Thus there at once arises the question as to what are the causes of this sudden reversal of aspect. Must it be concluded that the proposition is unsound in principle; that it is unnecessary and must inevitably lead to bad banking and therefore should be abandoned? Or must we look for the cause of the failure in the shortcomings of the laws themselves? Undoubtedly there are many interested observers, long opposed to the idea on principle, who are glad now to assume an "I told you so" attitude and dismiss the case without further ado. On the other hand one cannot examine the provisions of the various laws and follow their course as an administrative policy was being developed without being impressed by the fact that in time of stress the assurance of protection held out was a very unstable one, and one might well wish that it might have been possible to frame the legislation in such a manner that the proposal could have had a fairer trial. The tempering of politicians has not been an unknown danger and came very near wrecking the plan in the course of its history but this was not directly responsible for the failure in the end. The overwhelming effect of an unprecedented epidemic of bank failures broke the system which is not strange of course for if there was a weakness it must show itself in a time of particular stress. The point is, the laws did not provide against such a catastrophe and ignored the possibility of what in fire insurance is called the conflagration hazard. Neither would the result probably have been different if the supreme test had been postponed until time had been given to more firmly establish the plans. The oldest and presumably best established systems were among the first to collapse. The fact that none of the laws provided for an accumulating reserve fund based on a scientifically computed "mortality" table but rather



relied upon hand to mouth assessments, made the age element of little importance in determining the relative strength of the plan. It is true that more stringent supervision which invariably developed with experience with the plan in the several states tended to raise the standard of the individual risk. There is some evidence tending to show that this might have been the case and even that much more rigid observation of banks and bankers should have been the rule. The mortality among national banks with much stricter supervision, was very much less though this is to be partly explained on the grounds that the national banks are by legal requirement comparatively large institutions and it is to be expected that the mortality should be higher among the smaller banks. Inadequate inspection must no doubt assume a part of the blame, but the real cause it would seem, lies in the fact that every one of the laws in some way or another violate the principles of scientific insurance and must have been doomed to failure in a time of supreme test.

#### *The Lessons to be Drawn from the Failure:*

The causes as just stated suggest the lessons which may be drawn from the experiment. The insurance contemplated by the laws has been based on much the same principle as that involved in the country mutual fire insurance companies. These make assessments against the subscribing farmer in proportion to the valuation of his insured property, in sufficient amount to cover actual losses of members in the association and no reserve fund is built up. This works very well in a farm community where no conflagration risk exists. But if the risks of such a company were all situated in a single village where such risks are present, the probability would be that the system would be wrecked sooner or later. In banking, especially when considered in a local sense as in a state having a high degree of economic unity, the "conflagration hazard" cannot be eliminated. Bank failures occur for the most part, in times of depression and in such times, failure is likely to become a veritable epidemic. For such times, mutual assessment insurance with no provision for the accumulation of reserves, provides no protection. The results of the last few years serve but to reiterate the minimum requirements of scientific insurance as defined earlier in this report. With any less than these conditions, the plan has small hope for permanent success in times of stress.

#### *The Probable Future of Bank Deposit Guaranty.*

One can but conjecture what the probable future of this interesting experiment which seemingly has failed so dismally, will be. That a practical plan of guaranty of deposits could be worked out for the country as a whole, there is little reason to doubt. That there is no probability of such action bringing all banks under a guaranty plan throughout the nation is equally certain. Nothing short of an upheaval of concerted popular approval could bring about the unity of action necessary under our peculiar dual system of state and national banking, to secure such a result. It is equally sure that none of the plans developed in the various states is adequate to meet such a need if it exists. Of course such crystalization of public opinion throughout the nation upon some vital question has upon occasion been secured. Undoubtedly such will occur again and if the benefits to be secured by the guaranty of bank deposits, in the long run exceed the cost and the need ever seemed impressive enough, conceivably this might sometime be made such an issue. There is good reason for believing however, that the need for such a plan will impress itself less upon the public consciousness as banking standards are raised through increasingly rigid public inspection and control. In this direction, it is believed, lies the best means of protecting the public interest and with such control the demand for deposit guaranty, born of frontier conditions, will likely disappear.



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## MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

FRIDAY, May 2, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Mitchell, presided.

Present: Messieurs Baxter, Benoit, Black (Halifax), Black (Yukon), Cahill, Caldwell, Carmichael, Clark, Coote, Descoteaux, Drayton, Garland (Bow River), Good, Grimmer, Hanson, Healy, Irvine, McTaggart, Millar, Mitchell, Papineau, Robb, Ryckman, St. Père, Sales, Senn, Shaw, Speakman, Spencer, Steedsman, Stevens, Tobin, Vien—33.

After the consideration of Private Bills on the Order Paper—

The Chairman read the Home Bank Order of Reference, as follows:—

MONDAY, March 31, 1924.

*Ordered*,—That the Resolution adopted by this House on Thursday, 27th March, as follows:—

"That in the opinion of this House, in view of the failure of the Home Bank and of the fact that official prosecutions and inquiries have been instituted, including the Royal Commission which has been appointed to investigate the facts alleged in the petition represented by the depositors of the Bank and the affairs of the Bank generally; and considering that the evidence received and to be taken before the several tribunals will be available for consideration, the Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future; and also to consider the report of the Royal Commission in its bearing upon these matters and with respect to the possibility of saving the Home Bank depositors from loss," be referred to the Select Standing Committee on Banking and Commerce for such action as the Committee may deem advisable.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

A sub-committee, consisting of Messrs Good, Cahill, Baxter, Irvine, Vien and Mitchell, were appointed to consider and report to the Committee as to witnesses *re* Home Bank reference, with leave to report from time to time.

The Committee adjourned to meet at the call of the Chair.

WALTER TODD,  
*Chief Clerk of Committees.*



14-15 GEORGE V, A. 1924

HOUSE OF COMMONS,  
COMMITTEE ROOM 436,  
Wednesday, May 7, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Mitchell, presided.

*Present:* Messieurs Baxter, Black (Halifax), Carmichael, Carruthers, Casgrain, Clark, Duncan, Elliott (Dundas), Good, Guthrie, Harris, Healy, Irvine, Macphail, McMaster, Maybee, Millar, Mitchell, Robitaille, St. Père, Sales, Shaw, Steedsman, Stevens, Tobin and Vien.—26.

After the consideration of Private Bills on the Order Paper—

The sub-committee on witnesses reported progress and asked for leave to sit again.

Report adopted.

The Committee adjourned to meet at 11 a.m. on Thursday, May 8th, 1924.

WALTER TODD,  
*Chief Clerk of Committees.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 436,  
Thursday, May 8, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Mitchell, presided.

*Present:* Messieurs Benoit, Carmichael, Carruthers, Clark, Coote, Desco-teaux, Garland (Bow River), Good, Grimmer, Harris, Healy, Hodgins, Hudson, Irvine, Jacobs, Kellner, King (Huron), Ladner, Maclean (York), Macphail, McKay, McMaster, McQuarrie, Maybee, Mitchell, Ryckman, Spencer, Stevens, Tobin, Vien, Woods, Woodsworth.—32.

Mr. Vien, for Mr. Cahill, read the second report of the sub-committee, as follows:—

#### REPORT OF THE SUB-COMMITTEE ON BANKING AND COMMERCE

Your sub-committee under the Chairmanship of Mr. Frank S. Cahill, M.P., and composed of the Honourable Walter Mitchell, the Honourable J. B. M. Baxter, Messrs. W. C. Good, William Irvine and Thomas Vien have studied the question of witnesses to be summoned in respect of the subject matter referred to them by the Standing Committee on Banking and Commerce. They have limited themselves to the subject of bank inspection.

The following names have been suggested:

1. Mr. John S. Williams, formerly comptroller of Currency at Washington, D.C., now of Richmond, Virginia.
2. Mr. Lawrence O. Murray also formerly comptroller of Currency, whose address is presently unknown to us.
3. Mr. W. P. Malburn, American Exchange National Bank, New York City.
4. Mr. E. W. Stearns in the office of the comptroller of Currency, Washington, D.C.
5. Mr. Charles A. McLean, Vice-President Ladd & Tilton National Bank, Portland, Ore.

## APPENDIX No. 1

6. Sir William E. Stavert, of Montreal.

7. Mr. G. D. Finlayson, Superintendent of Insurance, Department of Finance, Ottawa.

Mr. Good was instructed by the sub-committee to inquire personally from these gentlemen whether they would be willing to give evidence if the Committee on Banking and Commerce desired their presence.

The sub-committee also instructed the secretary, Mr. Todd, to see to it that a wire be sent to the Secretary of the Treasury at Washington, drafted as follows:

“To the Secretary of Treasury,  
Washington, D.C.

The House of Commons' Banking Committee are considering advisability of adopting a system of Government Inspection of banks and desire expert evidence re your own system stop. Can you kindly suggest names of men well qualified to give full information. The following names have been suggested John S. Williams, Lawrence O. Murray, ex-comptroller of Currency, W. P. Malburn of the American Exchange National Bank, New York City, F. W. Stearns of the Comptroller' office stop. Kindly wire reply collect.

(Sgd.) W. G. MITCHELL.

The sub-committee begs to recommend that Sir William E. Stavert, of Montreal, and Mr. G. D. Finlayson be requested to appear on the question of inspection.

Your sub-committee further recommends that your Committee decide first other subjects of investigation before they be requested to suggest other names.

FRANK S. CAHILL,  
*Chairman of Sub-Committee*

On motion of Mr. Vien the report of the sub-committee was adopted as read.

Mr. Vien, for Mr. Cahill, read copies of telegrams sent by the Secretary, Mr. Todd and by Mr. Good, as instructed by the sub-committee. Copies of telegrams were filed with the clerk. Mr. Good read telegram received from Mr. John Skelton Williams, which was also filed with the clerk.

The Chairman read a further Order of Reference, as follows:—

*Ordered*,—That the Report of Doctor Tory on Agricultural Credits, tabled on the 15th April, be referred to the said Committee.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

Mr. Ladner suggested the calling of representatives of the Canadian Bankers' Association to give evidence as to bank inspection. Discussion followed and Mr. Ladner's suggestion was laid over for future consideration.

Committee decided to proceed with their investigation into “Bank Inspection Systems”, “Safety of Deposits” and “Double Liability of Shareholders”; Dr. Tory's Report on “Agricultural Credits” to be investigated later.

On motion of Mr. Stevens,

*Ordered*,—That this Committee request the Minister of Finance to nominate an official of his Department to give evidence before the Committee as to the operation and results of the last amendments to the Bank Act.

On motion of Mr. Vien, acting chairman of the sub-committee on witnesses,

*Ordered*,—That Sir William E. Stavert of Montreal be summoned to give evidence before this Committee on Tuesday next; and that the official nominated by the Minister of Finance be also requested to attend on that day to give evidence.

On motion of Mr. Ladner,

*Ordered*,—That the Minister of Finance be requested by this Committee to obtain from the chartered banks of Canada pursuant to his powers under the Bank Act the following information:—

1. The number of savings accounts in each of the chartered banks of Canada having on deposit as at 30th April, 1924, the sum of \$3,000 or less.

2. The total amount of money on said date in each of the said banks of such savings accounts up to the sum of \$3,000.

3. Similar information with respect to savings accounts between \$3,000 and \$5,000.

4. Similar information with respect to savings accounts between \$5,000 and \$10,000.

On motion of Mr. Shaw,

*Resolved*,—That this Committee is of opinion that the matter of guaranteeing deposits is within the scope of the Reference, therefore,

*Ordered*,—That the sub-committee be empowered to consider the names of witnesses familiar with the system or systems of guaranteeing deposits in vogue and to report thereon to the Committee with a view of calling such witnesses.

### *Notices of Motion*

No. 1.—By Mr. Shaw:—

That this Committee is of opinion that the purpose, organization and operation of some type of properly administered Central or Reserve Bank falls within the scope of the Reference; and that the sub-committee is hereby instructed to suggest to this Committee the names of competent witnesses to give evidence on this subject.

No. 2.—By Mr. Ladner:—

That this Committee recommend to Parliament the elimination from the Bank Act 1923, of all provisions relating to double liability of shareholders and that accordingly section 125 of the said Act and other sections relating to question of double liability be repealed.

The Committee adjourned at 12.50 o'clock a.m. to meet again at 11 o'clock a.m. on Tuesday, May 13, 1924.

S. R. GORDON,  
*Clerk to Committee.*



## HOUSE OF COMMONS,

COMMITTEE ROOM 436,

Tuesday, May, 13, 1924.

The Committee met at 11 a.m.

In the absence of the Chairman Mr. Vien presided.

*Present:* Messieurs Baxter, Benoit, Bird, Black (Halifax), Black (Yukon), Boivin, Cahill, Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Clark, Clifford, Coote, d'Anjou, Desaulniers, Descoteaux, Drayton, Duncan, Elliott (Waterloo), Fafard, Fortier, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Jacobs, Kellner, King (Huron), Ladner, Laflamme, McBride, Macdonald (Pictou), Mackinnon, Maclean (York), McCrea, McKay, McMaster, McMurray, McQuarrie, McTaggart, Malcolm, Maybee, Millar, Morin, Papineau, Porter, Rankin, Rhéaume, Robb, Robichaud, Robitaille, Ryckman, St. Père, Sales, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsmann, Stevens, Tobin, Vien, Woods and Woodsworth.—75.

The Clerk read telegrams received from Messers William P. Malburn, Cleveland, Ohio and A. W. Mellon, Washington, D. C. (These appear in the Minutes of Evidence of this date).

On motion of Mr. Shaw,

*Ordered,*—That the Clerk be instructed to secure a sufficient number of copies of the "Bank Act" for the use of the members of the Committee.

On motion of Mr. Coote,

*Ordered,*—That a Report be presented to the House recommending that the Committee be given leave to have their proceedings and such evidence as may be given before them, printed from day to day for the use of the members of the Committee and the House, and that Rule 74, relating thereto be suspended.

Presented to House, May 13, 1924. (See page 262, Votes and Proceedings.) Concurrence moved, concurred in, May 13, 1924. (See page 264, Votes and Proceedings.)

On motion of Mr. Mackinnon,

*Ordered,*—That the following shall be the mode of procedure for this Committee:—

1. All motions and notices of motion must be in writing.
2. Amendments to the "Bank Act" introduced in Committee by Members may be received as notices of motion to be discussed and not voted upon until a subsequent meeting of the Committee. Members of the Committee shall be furnished with copies of such amendments.
3. Non-contentions amendments to the "Bank Act" may be first disposed of. Any amendment or clause to which there is objection stands on the request of a Member for further consideration. Reconsideration shall be permissible on notice of motion.

The Committee proceeded to consideration of the following Notice of Motion standing in the name of Mr. Shaw:—

"That this Committee is of opinion that the purpose, organization and operation of some type of properly administered Central or Reserve Bank falls within the scope of the Reference, and that the sub-committee is hereby instructed to suggest to this Committee the names of competent witnesses to give evidence on this subject."

Discussion followed.

The question having been raised as to whether or not the proposed motion was within the scope of the Order of Reference, the acting Chairman reserved his decision until a future meeting of the Committee.

On motion of Mr. Good,

*Ordered*,—That the sub-committee on witnesses be requested to recommend from among those who are available, such witnesses as they think advisable and to report at the next meeting of this Committee.

Mr. George Edwards, Chartered Accountant, Toronto, Ontario, who had been nominated by the Department of Finance as a witness was called, gave evidence and retired.

Committee adjourned at 1.05 o'clock p.m. to meet at 11 o'clock a.m. tomorrow, Wednesday, May 14, 1924.

S. R. GORDON,  
*Clerk to Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 231,  
Wednesday, May 14, 1924.

The Committee met at 11 o'clock A.M.

In the absence of the Chairman, Mr. Vien presided.

*Present*: Messieurs Cahill, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Clifford, Coote, Descoteaux, Elliott (Dundas), Elliott (Waterloo), Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Healy, Hodgins, Hudson, Hughes, Irvine, Jacobs, Kellner, King (Huron), Ladner, Laflamme, McBride, Macdonald (Pictou), Maclean (York), Macphail, McKay, McMaster, McQuarrie, McTaggart, Marler, Maybee, Miller, Morin, Papineau, Robb, Ryckman, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens), Spencer, Steedsman, Stevens, Tobin, Vien, Woods and Woodsworth.—54.

The acting Chairman, read a further Order of Reference as follows:—

*Ordered*,—That the said Committee be authorized to have their proceedings and such evidence as may be taken, printed from day to day for the use of the members of the Committee and of the House.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

The Acting Chairman, for Mr. Cahill, read the third Report of the sub-committee as follows:—

### 3rd REPORT OF BANKING AND COMMERCE SUB-COMMITTEE

Your sub-committee recommend that the following witnesses be called, viz:—

Mr. John Skelton Williams, Richmond, Virginia, former Comptroller of the Currency at Washington, to be requested to give evidence on Tuesday, May 20th.

Mr. J. W. Pole, Washington, D.C., Chief National Bank Examiner, to be requested to give evidence on Thursday, May 22nd.

## APPENDIX No. 1

Messrs, E. W. Stearns, of the Comptroller's office Washington, D.C., and Sherill Smith, Vice-President, Chase National Bank, New York, to be requested to give evidence on a later date to be decided upon.

Your sub-committee have instructed the Clerk of the Committee to telegraph Messrs Williams and Pole with the view of ascertaining whether or not the dates recommended will suit their convenience.

FRANK S. CAHILL,  
*Chairman of the sub-committee.*

On motion of Mr. Tobin the Report of the sub-committee was adopted as read.

On motion of Mr. Good,

*Ordered*,—That Mr. John Skelton Williams, Richmond Virginia, former Comptroller of the Currency be requested to give evidence before this Committee on Tuesday, May 20th and that Mr. Williams be tendered the usual travelling and living expenses of a witness before parliamentary committees.

On motion of Mr. Irvine,

*Ordered*,—That Mr. J. W. Pole, Washington, D.C., Chief National Bank examiner, be requested to give evidence before this Committee on Thursday, May 22nd, and that Mr. Pole be tendered the usual travelling and living expenses of a witness before parliamentary committees.

On motion of Mr. Irvine,

*Ordered*,—That a Report be presented to the House asking that the Committee be granted leave to sit while the House is in session. Presented to House, May 14, 1924. Concurrence moved, concurred in, May 14, 1924. (See page 267, Votes and Proceedings.)

Mr. George Edwards, Chartered Accountant, Toronto, who was in attendance, continued his evidence and retired.

### *Notice of Motion*

Mr. Ladner gave notice of the following Motion:—

#### SAVINGS DEPOSITS AND THEIR PROTECTION.

"That in the opinion of this Committee the Bank Act should be amended in order to provide for the establishment in the chartered banks of Canada of a special savings account or other class of accounts for savings deposits in addition to those now existing, whereby all holders of deposits in such special savings account in any one bank, or branch thereof, shall be protected or guaranteed against loss up to the sum of \$3,000 according to a similar principle as that now provided for in sections 62 to 69 inclusive of the Bank Act relating to the protection of bank notes by the establishment of a fund known as the Bank Circulation Redemption Fund, or that such special savings account be established in accordance with some other principle of insurance the premium of which will be paid by the depositors or the chartered banks of Canada, or both, or in such other manner as the committee may consider capable of giving reasonable protection to depositors of money in savings accounts in such sums as the committee may determine."

The Committee adjourned at 1.15 o'clock p.m. to meet at 11 o'clock tomorrow, Thursday, May 15, 1924.

S. R. GORDON,  
*Clerk to Committee.*



HOUSE OF COMMONS,  
COMMITTEE ROOM 231,  
THURSDAY, May 15, 1924.

The Committee met at 11 o'clock a.m.

In the absence of the Chairman Mr. Vien presided.

Present: Messieurs Baxter, Benoit, Bird, Black (Halifax), Bristol, Cahill, Caldwell, Carmichael, Carruthers, Chaplin, Chevrier, Clark, Clifford, Coote, Desaulniers, Descoteaux, Drayton, Duncan, Elliott (Dundas), Elliott (Waterloo), Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Jacobs, Kellner, King (Huron), Ladner, McBride, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail, McCrea, McKay, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Morin, Papineau, Rankin, Robb, Bobitaille, Ryckman, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Stevens, Vien, Ward and Woods—65.

The acting Chairman read telegraphic correspondence between Mr. J. Skelton Williams and the Chairman and Clerk, in which the date for Mr. Williams appearance before the Committee was set for Thursday, May 22nd, and between Mr. J. W. Pole and the Clerk in which the date for Mr. Pole's appearance was set for Tuesday, May 20th.

Mr. George Edwards, Chartered Accountant, Toronto, who was in attendance, continued his evidence and retired.

The Committee adjourned at 1.05 o'clock p.m. to meet again at 2 o'clock p.m.

The Committee reassembled at 2 o'clock p.m., the Acting Chairman, Mr. Vien, presiding.

Sir William E. Stavert, Financier, Montreal, who was in attendance in obedience to summons, was called, sworn, gave evidence and was discharged from further attendance.

The Committee adjourned at 3.10 o'clock p.m. to meet again at 11 o'clock a.m. on Tuesday, May 20, 1924.

S. R. GORDON,  
*Clerk to Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
TUESDAY, May 20, 1924.

The Committee met at 11 o'clock a.m.

*Present:* Messieurs Benoit, Black (Yukon), Cahill, Caldwell, Carmichael, Carruthers, Clifford, Coote, Crerar, d'Anjou, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Fafard, Fortier, Garland (Bow River), Grimmer, Hanson, Hatfield, Healy, Hodgins, Hudson, Hughes, Kellner, Ladner, Macdonald (Pictou), Mackinnon, Maclean (York), Miss Macphail, Messieurs McCrea, McKay, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Miller, Morin, Papineau, Rankin, Rhéaume, Robb, St. Père, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Stevens, Stork, Tobin, Vien, Ward, Woods, Woodsworth,—60.

Owing to the resignation of the Hon. Walter G. Mitchell, the Chairman of this Committee, as a Member of the House, it was necessary to select another Chairman, and on motion of Mr. Hughes, seconded by Mr. Spencer, Mr. Vien was unanimously selected, took the Chair and presided.

A copy of a letter from His Honour the Speaker addressed to Mr. A. C. Campbell, Editor of Debates and Chief of Reporting Branch, with reference to the reporting of evidence taken before the Committees, was ordered to be printed in the proceedings of to-day. (Letter follows.)

HOUSE OF COMMONS,  
CANADA  
The Speaker

March 27, 1924.

DEAR MR. CAMPBELL,—As you have asked for instructions with regard to your duties at this time, this letter is to confirm my verbal statements.

As Chief of the Reporting Branch you are aware that great extra expense has been involved in the reporting of Committees of the House, and it is my desire to limit such expense as closely as possible. The salaries of our Committee Reporting Staff and their assistants, together with fees paid to extra reporters, make a total for this service which is altogether too great. This is not to suggest any lack of attention to economy on your part except that, possibly, in the zeal of yourself and your staff to meet the wishes of the Chairman and members of every Committee, you may have given too wide an interpretation to instructions given to your predecessors years ago.

Your present Committee Reporting Staff consists of a chief and two reporters, but the establishment fixed by the House allows for the employment of another reporter. I understand that the vacant position has been advertised by the Civil Service Commission, and that the necessary examination is now in progress. It is my desire that the work of reporting should be done by this staff as far as possible, and that only in case of urgent need should any extra assistance be engaged. Last session, as you will remember, one of your temporary reporters put in a bill for hotel expenses. This being new, I at first disallowed it, but afterwards consented to the payment in view of the smallness of the sum involved, and the special stress of work which seemed to compel the employment of the one concerned. But, as you will remember, I distinctly stated at the time that this instance was not to be drawn into a precedent. You will be guided accordingly in the engagement of extra reporters this session.

14-15 GEORGE V, A. 1924

My investigation of the matter leads me to believe that the reports made by your assistants are unduly extended. You are aware that the work of the Committee staff is confined to the reporting of evidence taken before Committees and that the reporting of discussions is not permitted. This is made very clear in the instructions given by the late Dr. Thomas B. Flint, then in charge of these matters as Clerk of the House; on 15th November, 1910, he wrote as follows:—

The members of the Staff of Official Stenographers to Committees of the House are hereby instructed that their duties are limited to the reporting of evidence given before such committees. Beyond the mere noting of objections raised and the Chairman's ruling thereon, which is necessary to render the record intelligible, discussions in committee are not to be taken down in shorthand and transcribed.

These instructions seem to me to apply at this time as well as when they were given. They are therefore renewed to-day. You will carry them out strictly.

Yours faithfully,  
(Sgd.) RODOLPHE LEMIEUX,  
*Speaker.*

A. C. CAMPBELL, Esq.,  
Editor of Debates and  
Chief of Reporting Branch,  
House of Commons.

OTTAWA, 15 November, 1910.

SIR,—Clerks of Committees and Stenographers are requested to note the following regulation:—

“The members of the Staff of Official Stenographers to Committees of the House are hereby instructed that their duties are limited to the reporting of evidence given before such committees. Beyond the mere noting of objections raised and the Chairman's ruling thereon, which is necessary to render the record intelligible, discussions in committee are not to be taken down in shorthand and transcribed.”

I am,

Yours truly,  
THOMAS B. FLINT,  
*Clerk of the House of Commons.*

#### *Notice of Motion*

Mr. Spencer gave notice that on a subsequent date he would move the following resolution:—

“That the Bank Act be amended to provide that the moneys in the Circulation Fund shall first be applied to the payment of the notes of a bank which has suspended payment and that the other assets of the bank be not applied to the payment of such notes until the moneys in the said fund are first exhausted”.

Mr. John W. Pole, Chief National Bank Examiner, Washington, D.C., who was in attendance in obedience to summons, was called, sworn, gave evidence and retired.

Committee adjourned at 1.15 o'clock p.m. to meet at 4 o'clock p.m. this day.  
Committee reassembled at 4 o'clock p.m.

Mr. John W. Pole, continued his evidence and retired.

Committee adjourned at 5.40 o'clock p.m. to meet at 11 o'clock a.m. tomorrow, Wednesday, May 21, 1924.

S. R. GORDON,  
*Clerk to Committee.*



## HOUSE OF COMMONS,

COMMITTEE ROOM No. 429,

WEDNESDAY, May 21, 1924.

The Committee met at 11 o'clock A.M.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Cahill, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Crerar, Desaulniers, Descouteaux, Duncan, Elliott (Dundas), Euler, Fafard, Garland (Bow River), Good, Hanson, Hatfield, Hodgins, Hughes, Kellner, Ladner, Macdonald (Pictou), Maclean (York), Miss Macphail, Messieurs McKay, McMaster, McTaggart, Malcolm, Marler, Millar, Papineau, Sales, Shaw, Sinclair (Queens P.E.I.), Spencer, Steedsman, Stevens, Vien, Ward and Woodsworth.—42.

*Notice of Motion*

Mr. Garland gave notice that on a subsequent date he would move the following Resolution:—

“That Schedule ‘G’ of the Bank Act under the caption ‘Assets’ be amended by adding thereto the following items:—‘Appropriation Account,’ ‘Contingent Reserve,’ ‘Undistributed Profits.’”

The question having arisen as to the number of copies of the Reports being printed, the Chairman took the question under consideration, to report at a future meeting of the Committee.

On motion of Mr. Coote, seconded by Mr. Shaw,

*Ordered*,—That Dr. Tory be requested to appear before the Committee on Wednesday, May 28th, 1924.

Mr. John W. Pole, Chief National Bank Examiner, Washington, D.C., who was again in attendance gave further evidence.

A point of order having been raised as to the admissibility of evidence touching upon the Federal Reserve Banking system and upon a proposed Resolution moved by Mr. Shaw, of which notice had been given, the Chairman ruled as follows:—

1. The Order of Reference from the House to this Committee reads as follows:

“The Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future.”

2. Mr. Shaw moves the following:

“That this Committee is of the opinion that the purpose, organization and operation of some type of properly administered Central or Reserve Bank falls within the scope of the Reference, and that the subcommittee be hereby instructed to suggest to this Committee the names of competent witnesses to give evidence on this subject.”

3. The creation of a Central or Reserve Bank, however, would be a radical departure from our present system of banking.

4. Did the House intend to empower this Committee to recommend amendments which would fundamentally change the Act?

5. The Act is revised every ten years, and it would be detrimental to the stability of our financial institutions if a thorough revision were to take place every year.

6. The Order of Reference limits us to recommending such amendments as would better protect the interests of the depositors.

7. The purpose of the Central or Reserve Bank is not directly better to protect the depositors, but to afford greater rediscounting facilities.

8. The difficulties which confront the depositors of the Home Bank appear to be due, not to the lack of discounting facilities, but on the contrary, to the great facility with which the Bank made advances on doubtful or valueless securities.

9. A Central or Reserve Bank could not have rediscounted these doubtful securities, and therefore would not have offered a greater elasticity, and the depositors would have received no additional security for their deposits.

10. It has not been established to the satisfaction of the Chair that the organization and operation of some type of Central Bank would better protect the interests of depositors generally, and would prevent similar occurrences in the future.

11. The matter of the establishment of a Central or Reserve Bank was fully investigated last year, and a considerable time was spent in collecting valuable information which has been printed and which is now available to Honourable Members.

12. It is possible that any change in the Bank Act more or less remotely affects the interests of the depositors.

13. But should we not endeavour to suggest amendments most likely to receive the approval of Parliament, and primarily some method which would have a more certain, direct and decisive effect to increase the safety of the depositors.

14. In my opinion, such were the instructions of the House.

15. To do otherwise would turn this limited Reference into an unlimited one, involving possibly the revision of the whole Act.

16. In my humble judgment, I am obliged so to decide, and therefore to find that the subject-matter covered by Mr. Shaw's motion, namely the purpose, organization and operation of a Central or Reserve Bank, does not fall within the scope of the Order of Reference.

Mr. Shaw moved, seconded by Mr. Spencer:

"That the ruling of the Chair be not sustained."

The question being put on Mr. Shaw's motion it was negatived on division; Yeas 12; Nays 14. The names being called for, were taken down as follows:—

Yeas:—Messieurs Benoit, Coote, Elliott, Garland, Good, Hodgins, Maclean (York), Macphail (Miss), McMaster, Shaw, Spencer, Ward.—12.

Nays:—Messieurs Carmichael, Carruthers, Clifford, Duncan, Grimmer, Hanson, Hatfield, Hudson, Hughes, Kellner, McTaggart, Marler, Ryckman, Stevens.—14.

Mr. Ladner moved, seconded by Mr. Good:

"That a Report of this Committee be presented to the House requesting that the Order of Reference be enlarged so as to embrace the study and consideration of the purpose, organization of some type of properly administered Central or Reserve Bank."

## APPENDIX No. 1

The question being put, it was passed in the Affirmative, on division. The Names, being called for, were taken down as follows:—

Yeas:—Messieurs Benoit, Carruthers, Clifford, Coote, Clifford, Elliot (Dundas), Euler, Garland, Hodgins, Hudson, Hughes, Kellner, Ladner, Maclean, McKay, McMaster, McTaggart, Sales, Shaw, Spencer, Ward, Woods-worth.—22.

Nays.—Messieurs Carmichael, Grimmer, Hanson, Hatfield, Marler, Ryckman, Stevens.—7.

Presented to House, May 21, 1924. (See page 295, Votes and Proceedings.) Concurrence moved, concurrence lost on division, July 2, 1924. (See page 471, Votes and Proceedings.)

Mr. Pole continued his evidence and retired.

The Committee adjourned at 1.15 o'clock p.m. to meet again at 11 o'clock a.m. to-morrow, Thursday, May 22, 1924.

S. R. GORDON,  
*Clerk of Committee.*

## HOUSE OF COMMONS,

COMMITTEE ROOM 429,

THURSDAY, May 22, 1924.

The Committee met at 11 o'clock A.M.

The Chairman, Mr. Vien, presided.

PRESENT: Messieurs Baxter, Benoit, Bird, Bristol, Cahill, Carmichael, Carruthers, Chevrier, Clifford, Coote, Descoteaux, Duncan, Elliott (Dundas), Euler, Garland (Bow River), German, Good, Grimmer, Hanson, Hatfield, Healy, Hodgins, Hudson, Hughes, Kellner, Ladner, McBride, Macdonald (Pictou), Maclean (York), Miss Macphail, Messieurs McKay, McMaster, McQuarrie, McTaggart, Marler, Maybee, Millar, Papineau, Power, Rankin, Ryckman, St. Pere, Sales, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Stevens, Tobin, Vien, Ward, Woods and Woodsworth—54.

*Notice of Motion*

Mr. Hughes gave notice that on a subsequent date he would move the following resolution:—

"That the Bank Act be amended by adding thereto as subsection three of section 125, the following:—

"(3) Transfer or sale of shares of the bank by directors or other executive officers of the Bank, made within a period of one year prior to any suspension by the bank of payment of any of its liabilities as they accrue in specie or Dominion notes, shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one thereof."



14-15 GEORGE V, A. 1924

On motion of Mr. McKay, seconded by Mr. McBride

*Ordered*,—That the number of copies of the Reports of of this Committee to be sent to Members of the Committee be limited to a maximum of ten each."

Mr. John W. Pole, Chief Examiner of National Banks, Washington, D.C., who was again in attendance, concluded his evidence and was discharged from further attendance, after the Chairman had expressed the pleasure of the Committee in Mr. Pole appearing before them, to which Mr. Pole made suitable reply.

The Committee adjourned at 12.50 o'clock P.M. to meet again at 2 o'clock P.M. this day.

The Committee reassembled at 2 o'clock P.M., the Chairman, Mr. Vien, presiding.

Mr. J. Skelton Williams, Financier, Richmond, U.S.A., who was in attendance in obedience to summons, was called, sworn, gave evidence and was discharged from further attendance after the Chairman had expressed the thanks of the Committee to Mr. Williams, and Mr. Williams' reply.

The Committee adjourned at 5.10 o'clock P.M. to meet again at 11 o'clock A.M. on Tuesday, May 27, 1924.

S. R. GORDON,  
*Clerk to Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
TUESDAY, May 27, 1924.

The Committee met at 11 o'clock, a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Carmichael, Carruthers, Coote, d'Anjou, Descoteaux, Elliott (Dundas), Euler, Good, Grimmer, Harris, Healy, Hodgins, Hughes, Irvine, Maclean (York), McKay, McMaster, McQuarrie, McTaggart, Marler, Maybee, Morin, Papineau, Rankin, Robb, Ryckman, St. Père, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Vien and Ward.—35.

The Chairman read communications received from Mr. Robert Forke, M.P., enclosing letter from Messrs Campbell and Duke re the exchange charged on cheques, which letter was read into the minutes of evidence of to-day; from Mr. C. M. Gipton re Home Bank shareholders; from Mr. David Mills re bank inspection; from Mr. G. G. Henderson, Mayor of Fernie, B.C.; Association de Secours pour les Deposants de la "Home Bank" and Organization des Deposants de la Province de Quebec re Home Bank depositors; from Mr. W. O. Sealey re post office savings banks and government inspection of banks.

The Chairman reported that the sub-committee had not met for some time but that it had been arranged to have Dr. H. M. Tory appear before the Committee, to-morrow, Wednesday; that the Bankers' Association had requested that Mr. Charles E. Neill, acting President of the Association be heard. Committee decided to hear Mr. Neill on Friday next.

## APPENDIX No. 1

Hon. Mr. Robb, acting Minister of Finance, stated to the Committee what the Government proposed re bank inspection legislation.

*Notice of Motion*

Mr. Maclean gave notice that on a subsequent date he would move the following:—

“That in the opinion of this Committee the post office savings banks system be extended by marking cheques against accounts in same at the office of deposit.”

By unanimous consent, on motion of Mr. McMaster, seconded by Mr. McKay:—

*Ordered*,—“That a report be presented to the House recommending that the Minutes of Proceedings and Evidence taken before the Select Special Committee on Agricultural Conditions of last session be referred to this Committee.” (Presented to House, concurrence moved, concurred in, May 27, 1924. See pages 326 and 327, Votes and Proceedings.)

Mr. George D. Finlayson, Superintendent of Insurance, Department of Finance, Ottawa, who was in attendance at the request of the Committee, was called, gave evidence and retired.

The Committee adjourned at 1.05 o'clock, p.m., to meet at 11 o'clock, a.m., to-morrow, Wednesday, May 28th, 1924.

S. R. GORDON,  
*Clerk to Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
WEDNESDAY, May, 28, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Carmichael, Carruthers, Clifford, Coote, d'Anjou, Duncan, Elliott (Waterloo), Euler, Garland (Bow River), Good, Grimmer, Harris, Hodgins, Hughes, Irvine, Kellner, Maclean, (York), McKay, McMaster, McQuarrie, Maybee, Millar, Papineau, Ryckman, St. Père, Sales, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Stevens, Vien and Ward—36.

The Chairman read a further Order of Reference as follows:

“That the Minutes of Proceedings and Evidence taken before the Select Special Committee on Agricultural Conditions last session be referred to this Committee.”

*Notices of Motion*

Mr. Hodgins gave notice that on a subsequent date he would move the following:

“Resolved that Section 131 of the Bank Act be amended so that government deposits will not have precedence over private deposits.”

14-15 GEORGE V, A. 1924

Mr. Coote gave notice that on a subsequent date he would move the following:

"That in the opinion of this Committee legislation should be brought down this session to provide for the establishment of long term credits."

Dr. H. M. Tory, President of the University of Alberta and Administrative Chairman of the Industrial Research Council, who was in attendance in obedience to summons, was called, sworn, gave evidence and retired.

The Committee adjourned at 1 o'clock p.m. to meet again at 8.30 o'clock p.m. this day.

The Committee reassembled at 8.30 o'clock p.m., the Chairman, Mr. Vien, presiding.

Dr. H. M. Tory, who was again in attendance, continued his evidence and retired.

The Committee adjourned at 10.55 o'clock p.m. to meet again at 10 o'clock a.m. on Friday, May 30, 1924.

S. R. GORDON,  
*Clerk of Committee.*

#### HOUSE OF COMMONS

COMMITTEE ROOM 429,

FRIDAY, May 30, 1924.

The Committee met at 10 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Black (Halifax), Cahill, Caldwell, Carruthers, Clark, Clifford, Coote, Euler, Garland (Bow River), German, Good, Grimmer, Hanson, Hatfield, Healy, Hodgins, Hughes, Irvine, Kellner, Ladner, McBride, Mackinnon, Maclean (York), McKay, McQuarrie, Maybee, Miller, Rankin, Ryckman, St. Père, Sales, Sinclair (Queens, P.E.I.), Steedsman, Stevens, Tobin, Vien, Ward, Woods, Woodsworth.—40.

After Consideration of Private Bills,—

The Chairman read the following letter from Mr. A. W. Mellon:—

The Secretary of the Treasury

(Seal)

WASHINGTON, May 26, 1924.

DEAR SIR,—I have your letter of May 23, and if there is any further assistance which the Treasury may be to your committee in its investigation, please advise me.

Very truly yours,

(Sgd.) A. W. MELLON,  
*Secretary of the Treasury.*

THOMAS VIEN, Esq.,

Chairman, Banking and Commerce Committee,

Chambre des Communes,

Ottawa, Canada.



*Notices of Motion*

Mr. McQuarrie gave notice that on a subsequent date he would move the following:—

“That the Deputy Minister of Finance or some other official of the Department of Finance to be delegated by him, be requested to appear before this Committee and give evidence as to the present system of rediscounting and generally as to the regulations of dealings between the Department of Finance and the banks and the operation of the Bank Act.”

Mr. Coote gave notice that on a subsequent date he would move the following:—

“That this Committee recommend an amendment to the Bank Act which should provide that in each office of a chartered bank in Canada, notice should be displayed in large type in a prominent position, stating that the Government of Canada assumes no responsibility in regard to any monies deposited in the said bank.”

Mr. Coote gave notice that on a subsequent date he would move the following:—

“That the Bank Act be amended by adding thereto as Section 113-A the following:

‘There shall be posted up within 15 days from the end of each calendar month in every branch of the Bank in a conspicuous place on the premises thereof, accessible to the public, a statement signed by the Manager or Acting Manager of such branch, showing the total monies on deposit in said branch and total loans outstanding on the last day of the preceding month.’”

By unanimous consent, on motion of Mr. Shaw, seconded by Mr. Good,

*Ordered:* That a Sub-committee of 7 members of this Committee be appointed by the Chairman to study and consider appropriate emergency legislation by the Federal Government during the present session, for the purpose of temporarily granting Long Term Rural Credits;

And further, that the said Sub-Committee consider the existing Bankruptcy Law with a view to such amendments thereto as will make such law more applicable to the needs and situation of the farming community;

And further, that said Sub-committee make its recommendation on the above matters to this committee at as early a date as possible.

Mr. C. E. Neill, Acting President of the Canadian Bankers' Association, Montreal, who was in attendance, was called, sworn, gave evidence and retired.

The Committee adjourned at 1.35 o'clock p.m. to meet again at 4 o'clock p.m. this day.

The Committee reassembled at 4 o'clock p.m., the Chairman, Mr. Vien, presiding.

Dr. H. M. Tory, who was again in attendance continued his evidence and retired.

The Committee adjourned at 6.05 o'clock p.m. to meet at 11 o'clock a.m. on Thursday, June 5, 1924.

S. R. GORDON,  
*Clerk of Committee.*

14-15 GEORGE V, A. 1924

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

Thursday, June 5, 1924.

The Committee met at 11 o'clock A.M.

The Chairman, Mr. Vien, presided.

*Present*:—Messieurs Benoit, Black (Halifax), Carmichael, Carruthers, Clifford, Coote, Descoteaux, Duncan, Elliott (Dundas), Euler, Garland (Bow River), German, Good, Harris, Hatfield, Healy, Irvine, Kellner, Ladner, Maclean (York), Macphail (Miss), McCrea, McKay, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Miller, Morin, Robb, St. Père, Sales, Shaw, Sinclair (Oxford), Spencer, Steedsman, Stevens, Vien and Ward—40.

The Chairman read a letter he had received from Mr. J. W. Pole, Chief National Bank Examiner, Washington, D.C.

The Chairman reported that, as instructed by the Committee, he had appointed a sub-committee of seven Members, viz: Messieurs Coote, Euler, McKay, McMaster, Shaw, Stevens and Vien, to study with Dr. H. M. Tory the matter of emergency Rural Credit legislation and to report their finding to the Committee.

Mr. McKay, for the sub-committee on Rural Credits, reported progress.

### *Notices of Motion*

Mr. Coote raised the question of the completeness of the printed Reports of the Committee and gave notice that on a subsequent date he would move the following:—

“That this Committee request the permission of the House of Commons to print such of its discussions as it may deem expedient.”

Mr. Coote also gave notice that on a subsequent date he would move the following:

“That in the opinion of this Committee, the Banking Act should be amended by adding a section which should provide for limitation of the amount of a loan which could be made by any Bank to any person, firm or corporation to an amount not exceeding 10 per cent of the paid up capital and reserve funds of said Bank.”

Mr. Robb, Acting Minister of Finance, gave notice that on a subsequent date he would move the following:—

Bill Entitled “An Act to Amend The Bank Act”

Section 56A of The Bank Act is repealed, and the following is substituted therefor:

### *Inspection*

56A. The Minister shall appoint a person who has had training and experience in the business of banking who shall be charged with the performance of the duties hereinafter mentioned. Such person shall be designated “Inspector-General of Banks” and is hereinafter called the Inspector.

## APPENDIX No. 1

2. The Inspector shall hold office during good behaviour, but may be removed from office by the Governor-in-Council for misbehaviour or for incapacity, inability, or failure to perform his duties properly.

3. If the Inspector is removed from office for any of such reasons, the Order-in-Council providing for such removal and all documents relating thereto shall be laid before Parliament within the first fifteen days of the next ensuing session.

4. The Inspector while holding office shall not perform any service for compensation other than the service rendered by him under the provisions of this section.

5. The Minister may appoint or employ, on the recommendation of the Deputy Minister of Finance and the Inspector, such persons with training and experience in the business of banking or auditing, and such clerical assistance, as may be deemed necessary to carry out and give effect to the provisions of this section. Persons so appointed or employed shall receive such salary or remuneration as may be fixed by the Minister.

6. The Inspector, or other person appointed or employed under this section acting under his direction, shall at least once in each calendar year, and oftener if considered necessary by the Inspector or the Minister, examine and inquire into the affairs and business of each bank, and at the conclusion of the examination and enquiry a report thereon shall be made to the Minister. Such examination and enquiry shall be conducted at the chief office of the bank, or office of the General Manager if the office of the General Manager is at a place other than the Chief Office of the Bank, and it shall not be necessary for the Inspector or such other person to conduct any part of such examination at the Branches of the Bank unless in his judgment reports from the Branches or other evidence, or lack of reports or evidence, render an examination necessary at particular branches.

7. A copy of all reports made by the auditors of a Bank to the General Manager and to the Directors under the next preceding section shall be transmitted or delivered to the Minister by the auditors at the same time as such reports are transmitted or delivered to the General Manager and Directors.

8. The Inspector, or person acting under his direction, shall have a right of access to the books and accounts, documents, vouchers and securities of the bank, and shall be entitled to require and receive from the directors, officers and auditors of the bank such information and explanation as may be necessary for the performance of his duties.

9. The Inspector, or person acting under his direction, shall have power to examine under oath the general manager and any of the other officers of the bank, and a general manager or other officer who refuses to submit to such examination commits an offence against this Act and is liable as provided in Section 157 of this Act.

10. Whenever the Inspector is satisfied that a bank is insolvent he shall report fully on the bank's condition to the Minister and the Minister may, without waiting for the bank to suspend payment in specie or Dominion notes of any of its liabilities as they accrue, request the Association or the President of the Association to appoint a curator to supervise the affairs of such bank, and such request shall have the same effect as if the bank had suspended payment in specie or Dominion notes of any of its liabilities as they accrued, and a curator shall forthwith be appointed as provided in section 117 of this Act.

11. The Inspector shall be paid a salary fixed by the Minister at a sum not exceeding Twenty-five thousand dollars per annum.



12. All salaries, remuneration and other expenses incidental to giving effect to this section shall be paid out of the Consolidated Revenue Fund, and the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon the average total assets of the banks respectively during the year, as shown by the monthly returns made by the banks to the Minister under section 112, and such assessment shall be paid by the banks.

13. All persons appointed under this section shall be officers of the Department of Finance, but the provisions of the Civil Service Act, 1918, shall not apply to such persons.

14. Any director, president, general manager or other officer of the bank who directly or indirectly makes a loan or grant or give any gratuity to the Inspector or any other person appointed or employed under this section, and the Inspector or any such person who accepts or receives, directly or indirectly, any such loan, grant or gratuity, commits an offence against this Act, and is liable as provided in section 157 of this Act, in addition to any punishment otherwise provided.

15. The Inspector and any person appointed or employed under this section who disclose to any other person, except the Minister and the Deputy Minister of Finance, any information regarding a bank, its .....business or affairs commits an offence against this Act and is liable as provided in section 157 of the Act.

16. Provided however that the Government shall not incur any liability whatever to any depositor, creditor or shareholder of any bank, or to any other person, for any damages, payment, compensation or indemnity which he may suffer or claim by reason of this section or anything therein contained, or by reason of anything done or omitted to be done under the requirements thereof, or by reason of anything omitted to be done which is thereby required to be done, or by reason of any order or direction of the Governor in Council or of the Minister in the execution or administration of the powers or any of them by this section conferred, or by reason of any failure or omission on the part of Governor in Council or of the Minister or of the Inspector, or of any officer or employee of the Government to execute or discharge any power, authority or duty thereunder, or otherwise by reason of any default, negligence, mistake, error or omission in the administration or discharge of the powers or duties which in any circumstances are by this section intended or authorized to be executed or performed and no such payment, damages, compensation or indemnity, nor any claim therefor, shall in any case be authorized, paid or entertained by the Government.

17. This section shall come into force on the first day of October, nineteen hundred and twenty-four, but it shall not be incumbent upon the Inspector to examine all of the banks under the section during the calendar year one thousand nine hundred and twenty-four.

Discussion followed.

Mr. George Edwards, who was again in attendance, was called, gave evidence and retired.

The Committee adjourned at 1.15 o'clock p.m. to meet at 11 o'clock a.m. on Tuesday, June 10, 1924.

S. R. GORDON,  
*Clerk of Committee.*

## APPENDIX No. 1

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,

WEDNESDAY, June 11, 1924.

The Committee met at 11 o'clock A.M.

*Present*.—Messieurs Benoit, Black (Halifax), Carmichael, Carruthers, Casgrain, Clifford, Coote, Descoteaux, Elliott (Dundas), Euler, Fafard, Garland (Bow River), Good, Grimmer, Hanson, Healy, Hodgins, Hughes, Irvine, Kellner, Maclean (York), Macphail (Miss), McKay, McMaster, McQuarrie, Marler, Maybee, St. Père, Sales, Shaw, Sinclair (Oxford), Spencer, Ward and Woods—34.

The Clerk informed the Committee of the unavoidable absence of the Chairman.

On motion of Mr. McKay, seconded by Mr. Irvine, Mr. McMaster was selected as acting Chairman.

The Acting Chairman read communications received from the Home Bank Depositors' Relief Committee, Toronto and the Clerk's replies thereto.

Mr. McKay, for the sub-committee on Rural Credits, reported progress.

*Notices of Motion*

Mr. Coote, for Mr. Ladner, gave notice that on a subsequent date he would move the following:

*Resolved*.—That this Committee recommend to Parliament the establishment, in the chartered banks of Canada, of an additional class of savings accounts whereby all holders of deposits, who may place their money in such class of accounts, in any one bank or branch thereof, shall be protected against loss up to the sum of \$3,000 by the establishment of a fund on an insurance basis, the premiums of which will be contributed by the depositor and the bank in such proportion as may be determined and that the Government work out the details and actuarial data necessary for the establishment of the said proposal and upon conference with the banking institutions of Canada, that legislation may be enacted to carry out the results of the said conference and such scheme as may be evolved."

Notice having been given, on motion of Mr. McQuarrie, second by Mr. Maclean:

*Ordered*.—"That the Deputy Minister of Finance or some other official of the Department of Finance to be delegated by him, be requested to appear before this Committee and give evidence as to the present system or rediscounting and generally as to the relations and dealings between the Department of Finance and the Banks and the operation of the Bank Act."

By unanimous consent, on motion of Mr. Coote, seconded by Mr. Marler:

*Ordered*.—"That the motion before the House for concurrence in the Report of this Committee craving a widening of the Reference to enable consideration of the question of the establishment of a Central Bank, be moved next Tuesday."

14-15 GEORGE V, A. 1924

By unanimous consent, on motion of Mr. Irvine, seconded by Mr. Maclean:

*Ordered*,—"That representatives of the Home Bank Depositors' Relief Committee be heard at a date to be decided later as it is desirable to await the arrival before the Committee of Mr. Justice McKeown's Report, which is expected shortly."

Mr. Henry T. Ross, Secretary of the Canadian Bankers' Association, Toronto, Ontario, who was in attendance, was called, sworn gave evidence and retired.

The Committee adjourned at 1.15 o'clock P.M. to meet again at 10 o'clock a.m. to-morrow, Thursday, June 12, 1924.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
THURSDAY, June 12, 1924.

The Committee met at 11 o'clock a.m.

The Acting Chairman, Mr. McMaster, Presided.

Present: Messieurs Benoit, Black (Halifax), Cahill, Caldwell, Carmichael, Chevrier, Coote, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott, Euler, Garland, (Bow-River), Good, Harris, Healy, Hodgins, Hudson, Hughes, Irvine, Macdonald (Pictou), Mackinnon, Maclean (York), McCreagh, McKay, McMaster, McQuarrie, Malcolm, Marler, Maybee, Miller, Morin, Rankin, Robb, Robichaud, Ryckman, St. Père, Sales, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Stork, Vien, Ward and Woods.—48.

After Consideration of Private Bills,—

The Clerk read the following additional Orders of Reference:

THURSDAY, June 5, 1924.

*Ordered*,—That the said Committee be instructed to lay on the table of the House as part of their sixth Report the minutes and proceedings of all their sittings during the present Session prior to their adoption of the said Report.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

WEDNESDAY, 11th June, 1924.

*Ordered*,—That the interim Report of the Royal Commission respecting the Home Bank be referred to the Select Standing Committee on Banking and Commerce.

*Attest.*

W. B. NORTHRUP,  
*Clerk, House of Commons.*

By unanimous consent, on motion of Mr. Irvine, seconded by Mr. Spencer:

*Ordered*,—That a sub-committee of five members to be selected by the Chairman be appointed for the purpose of studying the interim Report on the Home Bank submitted by Mr. Justice McKeown and reporting back to this Committee their recommendations thereon for consideration.



## APPENDIX No. 1

By unanimous consent, on motion of Mr. Coote seconded by Mr. Benoit:

*Ordered*,—That the McKeown Report on the Home Bank be printed as part of our minutes of proceedings of this day. (See page xli.)

By unanimous consent, on motion of Mr. Maclean seconded by Mr. Spencer:

*Ordered*,—That the Postmaster General or a representative of his Department be invited to appear before this Committee to explain the system of Post office savings banks.

*Notice of Motion*

Mr. Spencer gave notice that on a subsequent date he would move the following Resolution:

*Resolved*,—That an amendment be added to Sec. 88 a S. S. 1 by inserting the words 'In an amount in excess of \$1,000' after the word 'Act' in the second line thereof."

Mr. George D. Finlayson, Superintendent of Insurance, Department of Finance, Ottawa, who was in attendance gave further evidence and retired.

Mr. J. C. Saunders, Deputy Minister of Finance, who was in attendance, was called, gave evidence and retired.

The Committee adjourned at 1.15 o'clock p.m. to meet again at 3.30 o'clock this day.

The Committee reassembled at 3.30 o'clock p.m., the Chairman, Mr. Vien, presiding.

Mr. J. C. Saunders continued his evidence and retired.

On motion of Mr. Spencer, Notice of Motion No. 11, being a bill entitled "An Act to amend the Bank Act" standing in the name of the Acting Minister of Finance was taken under consideration.

Clause 1 being under consideration at 6.10 o'clock p.m., the Committee adjourned to meet again at 11 o'clock a.m. on Tuesday, June 17, 1924.

S. R. GORDON,  
*Clerk to Committee.*

14-15 GEORGE V, A. 1924

HOUSE OF COMMONS,

COMMITTEE ROOM No. 429,

TUESDAY, June 17, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Carmichael, Carruthers, Clifford, Coote, Des-coteaux, Duncan, Elliott (Dundas), Garland (Bow River), Good, Grimmer, Hanson, Healy, Hodgins, Hughes, Irvine, Kellner, Maclean (York), Macphail (Miss), McCrea, McKay, McQuarrie, Marler, Maybee, Miller, Papineau, St. Père, Sales, Sinclair (Queens, P.E.I.), Spencer, Steedsman, Tobin, Vien, Woods and Woodsworth—35.

The Chairman read to the Committee a letter he had received from Mrs. Mary Forsythe, Coal Creek, B.C., with reference to the Home Bank and his reply thereto.

The Chairman read to the Committee the correspondence between the Home Bank Depositors' Relief Committee of Toronto and the Chairman and Clerk of this Committee. The correspondence was ordered to be placed in the Minutes of Proceedings of to-day and is as follows:—

(Copy)

CANADIAN PACIFIC RAILWAY CO'S. TELEGRAPH

TORONTO, June 5th, 1924.

Lieut.-Col. THOS. A. VIEN, K.C., M.P.,  
Chairman Banking Committee, Ottawa.

The Executive Committee of the Home Bank Depositors Association desire an opportunity to lay the facts of this matter before your committee next Thursday or on Tuesday, Wednesday or Thursday of the week following the earlier the date the better. We would like time for about three speakers to be heard. Would be obliged for an early a reply as possible letter following.

(Sgd.) I. E. WELDON,  
*Sec'y. Home Bank Depositors' Relief Committee.*

(Copy)

## HOME BANK DEPOSITORS' RELIEF ASSOCIATION

8 King St. West,  
TORONTO, Ont., June 5th, 1924.

Lieutenant-Colonel Thomas A. VIEN, K.C., M.P.,  
Chairman, Banking and Commerce Committee,  
House of Commons,  
Ottawa, Ont.

Dear Sir:

I beg to confirm telegram sent you to-day as follows:—

“The Executive Committee of the Home Bank Depositors' Association desire an opportunity to lay the facts of this matter before your Committee next Thursday, or on Tuesday, Wednesday or Thursday of the week following, the earlier the date the better. We would like time for about three speakers to be heard. Would be obliged for as early a reply as possible. Letter following.”

Yours truly,

(Sgd.) I. E. WELDON,  
*Secretary, Home Bank Depositors' Relief Committee.*

(Copy)

*Night Letter*

## CANADIAN NATIONAL TELEGRAPHS

OTTAWA, ONT., June 6, 1924.

I. E. WELDON,  
Sec'ty. Home Bank Depositors' Relief Committee  
8 King Street West, Toronto.

Your telegram and letter of fifth instant addressed to Chairman Banking and Commerce Committee will be placed before Committee at their first meeting on Wednesday next eleventh instant and their decision communicated to you immediately.

S. R. GORDON,  
*Clerk to Committee.*

Night letter paid.

Charge Banking Committee.



14-15 GEORGE V, A. 1924

(Copy)

## SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

Mr. I. E. WELDON, Secretary,  
Home Bank Depositors' Relief Committee,  
8 King Street, West, Toronto, Ont.

FRIDAY, June 6, 1924.

DEAR SIR:—Enclosed is confirmation of telegram sent you this evening in reply to your telegram and letter to the Chairman of the Committee.

Immediately upon the Committee deciding on what day they can hear you and the number of speakers I will be glad to advise you.

In the meantime, I am mailing to you as secretary of the Relief Committee a printed copy of the evidence taken to date by the Committee; also the "Orders of the Day" for Wednesday containing the 'Notices of Motion'.

Yours truly,

S. R. GORDON,  
*Clerk to Committee.*

(Copy)

*Night Letter*

## CANADIAN NATIONAL TELEGRAPHS

OTTAWA, ONT., June 11, 1924.

I. E. WELDON,  
Secretary, Home Bank Depositors' Committee,  
8 King Street West, Toronto.

House of Commons Banking Committee to-day decided hear three representatives your organization on a date to be decided after Committee has received Mr. Justice McKeown's report Stop You will be advised of date set.

S. R. GORDON,  
*Clerk to Committee.*

Night letter paid.  
Charge Banking Committee.

(Copy)

## HOME BANK DEPOSITORS' RELIEF ASSOCIATION

8 King Street West,  
TORONTO, ONT., June 12th, 1924.

S. R. GORDON, Esq.,  
Clerk to Banking and Commerce Committee,  
House of Commons,  
Ottawa, Ont.

DEAR SIR:—I beg to acknowledge receipt of your telegram of June 11th advising us that the Committee decided to hear three representatives of the Home Bank Depositors' organization on a date to be decided after Committee has received Mr. Justice McKeown's report and that we will be advised of the date set.

We see by the Press that Justice McKeown's report is now in the hands of the Government and we presume therefore it will soon be before your Committee.

Thanking you for your prompt advice of the Committee's decision.

Yours very truly,

(Sgd) I. E. WELDON,  
*Secretary, Home Bank Depositors' Relief Committee.*

APPENDIX No. 1

## CANADIAN NATIONAL TELEGRAPHS

OTTAWA, Ont., June 14, 1924.

W. T. J. LEE, Esq.,  
 Chairman, Home Bank Depositors' Relief Ass'n.,  
 8 King St. West,  
 Toronto.

I notice in Citizen this morning reference to your declarations of last night that no reply had been received to the message asking if the Banking and Commerce Committee would receive a deputation representing the Depositors. Kindly enquire from Mr. Weldon your Secretary if he did not receive telegram and letter dated June sixth and telegram June eleventh. We have his acknowledgment dated June Twelfth. Kindly correct impression given to the press that Committee did not answer your message.

THOMAS VIEN,  
*Chairman.*

## SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

Office of the Chairman.

OTTAWA, Ont., June 14th, 1924.

W. J. T. LEE, Esq.,  
 Chairman, Home Bank Depositors' Relief Ass'n.,  
 8 King Street, West, Toronto, Ont.

Dear Sir,—I beg to enclose, herewith, confirmation of my telegram of to-day. It is with some surprise that I have read in the Press this morning that no reply had been received to the message asking if the Banking and Commerce Committee would receive a deputation representing all the depositors. You will find by the copy of the correspondence exchanged and which I beg to attach hereto, that the Committee has immediately answered your request by wire and letter.

May I further state that the Committee has deemed it advisable to peruse Mr. Justice McKeown's Report before it receives you so as to be able better to appreciate your representations when your delegation is received.

I may state that we shall endeavour to fix the 19th or 20th to receive your delegation. The Committee will sit on Tuesday the 17th inst. and will then fix a date and you shall be informed immediately.

Yours truly,  
 (Sgd.) THOMAS VIEN,  
*Chairman.*

(Copy)

## CANADIAN PACIFIC RAILWAY CO'S. TELEGRAPH

TORONTO, June 16-24

Lieut.-Col. Thomas VIEN, K.C., M.P.,  
 Ottawa.

Just received your wire stop made no such declaration to press stop some mistake stop Explain to Committee stop will be in Ottawa Tuesday morning and will see you on arrival.

W. T. J. LEE.

(Copy)

## CANADIAN PACIFIC RAILWAY COMPANY'S TELEGRAPH

TORONTO, ONT., June 16, 1924.

Lieut. Col. Thomas Vien, K.C., M.P.,  
Ottawa.

Have been away from office owing illness past week. Just learned of newspaper report Lee interview stating no reply received our message asking interview Banking and Commerce Committee. Cannot understand this report which we greatly regret. All our communications to you and Banking and Commerce Committee have received prompt and courteous reply. Will use every effort to correct false impression.

I. E. WELDON.

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Mr. W. T. J. Lee, Chairman, Home Bank Depositors' Relief Association, Toronto, who was in attendance addressed the Committee.

The Chairman reported that, as instructed by the Committee, he had appointed a sub-committee of five members, viz: Messieurs Hanson, Irvine, Malcolm, Marler and Vien, for the purpose of studying the interim Report on the Home Bank submitted by Mr. Justice McKeown and reporting back to this Committee their recommendations thereon for consideration.

The Chairman, for the sub-committee, reported that they had met this morning and wished to report progress and asked leave to sit again.

Mr. Spencer moved, seconded by Mr. Healy:

"That the sub-committee on the McKeown Report be enlarged to seven members."

Discussion followed.

The question being put it was passed in the affirmative.

By unanimous consent, on motion of Mr. Irvine, seconded by Mr. Maclean.

*Ordered*,—"That this Committee hear a deputation of the Home Bank depositors a week from to-morrow, Wednesday, June 25, 1924; and that the sub-committee take cognizance simply of the McKeown Report and do not hear witnesses."

*Notice of Motion*

Mr. Hanson gave notice that on a subsequent date he would move the following:

"That all honourable members be requested to give notice of proposed Motions on or before Thursday, June 19, 1924; and that no notices of motion be received by the Committee thereafter."

Mr. Coote gave notice that on a subsequent date he would move the following:

"That Section 61, sub-section 3-a, be struck out, and the following substituted therefor:

'50 per cent of the amount of the unimpaired paid-up capital of the bank, and'."



## APPENDIX No. 1

Mr. Coote also gave notice that on a subsequent date he would move the following:

"That this Committee is of the opinion that the Bank Act should be amended to provide that the printing and issuing of bank notes should be under the control of the Department of Finance, and that regulations covering the printing and issuing of said notes should be in the hands of the Department of Finance instead of the Bankers' Association."

Mr. Henry T. Ross, Secretary, Canadian Bankers' Association, Toronto, who was again in attendance was called, gave evidence and retired.

Mr. Austin Bill, Revenue Division, Post Office Department, Ottawa, who was in attendance, was called, gave evidence and retired.

The Committee adjourned at 1.15 o'clock p.m., to meet at 11 o'clock a.m. to-morrow, Wednesday, June 18, 1924.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM No. 429,  
WEDNESDAY, June 18, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Baxter, Bird, Bristol, Cahill, Caldwell, Carmichael, Carruthers, Casgrain, Clark, Clifford, Coote, Crerar, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Garland (Bow River), Good, Hanson, Harris, Healy, Hodgins, Hughes, Irvine, Kellner, Maclean (York), Macphail (Miss), McCrea, McMaster, McQuarrie, Malcolm, Marler, Maybee, Miller, Morin, Papineau, Robb, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Tobin, Vien, Ward, Woods and Woodsworth.—46.

The Chairman read letter from the Commercial Travellers' Association of Canada *re* the Home Bank and his reply thereto.

The Chairman reported that, as instructed by the Committee, he had added the names of Messieurs Healy and Spencer to the "McKeown Report" sub-committee; that the sub-committee had met this morning and desired to report progress and asked leave to sit again.

Mr. Coote for Mr. McKay, chairman of the sub-committee on "Rural Credits" reported progress and asked leave to sit again.

*Notice of Motion*

Mr. Maclean gave notice that on a subsequent date he would move the following:—

"That the Ontario Provincial Government be asked to send a representative of their Provincial Savings Branch to give this Committee some idea of the business they are doing in that province."

Previous notice having been given and on motion of Mr. Hanson, seconded by Mr. Maclean:

*Ordered*, "That all honourable members be requested to give notice of proposed motions on or before Tuesday, June 24, 1924; and that no notice of motion be received by the Committee thereafter unless by a majority vote of two thirds of the Members of the Committee present."

The Committee then took under consideration the Notice of Motion on the order paper standing in the name of the Acting Minister of Finance and entitled "Bill entitled: 'An Act to amend the Bank Act.' Section 56A of the Bank Act is repealed, and the following substituted therefor. *Inspection.*"

Clause 1 read, amended and agreed to as follows:—

1. "The Governor in Council on the recommendation of the Minister shall appoint a person who in his opinion has had proper training and experience who shall be charged with the performance of the duties hereinafter mentioned. Such person shall be designated 'Inspector General of Banks.' The Minister may direct some other such person to temporarily perform the duties of the inspector should the inspector, by reason of illness or other contingency, be unable to perform such duties."

Clause 2 read and agreed to as follows:—

2. The Inspector shall hold office during good behaviour, but may be removed from office by the Governor in Council for misbehaviour or incapacity, inability, or failure to perform his duties properly.

Clause 3 read, amended and agreed to as follows:—

3. If the Inspector is removed from office for any of such reasons the Order in Council providing for such removal and documents relating thereto shall be laid before Parliament within the first fifteen days of the next ensuing session.

Clause 4 read and agreed to as follows:—

4. The Inspector while holding office shall not perform any service for compensation other than the service rendered by him under the provisions of this section.

Clause 5 read, amended and agreed to as follows:—

5. "The Minister may appoint or employ on the recommendation of the Deputy Minister of Finance and the inspector, such persons with training and experience and such clerical assistants as may be deemed necessary to carry out and give effect to the provisions of this section. Persons so appointed or employed shall receive such salary or remuneration as may be fixed by the Minister."

Clause 6 read. Clause stands for further consideration.

Clause 7 read and agreed to as follows:—

7. A copy of all reports made by the auditors of a Bank to the General Manager and to the Directors under the next preceding section shall be transmitted or delivered to the Minister by the auditors at the same time as such reports are transmitted or delivered to the General Manager and Directors.

Clause 8 read, and agreed to as follows:—

8. The Inspector, or person acting under his direction, shall have a right of access to the books and accounts, documents, vouchers and securities of the bank, and shall be entitled to require and receive from the directors, officers and auditors of the bank such information and explanation as he may deem necessary for the performance of his duties.

## APPENDIX No. 1

Clause 9 read. Clause stands for further consideration.

Clause 10 read and agreed to as follows:—

10. Whenever the Inspector is satisfied that a bank is insolvent he shall report fully on the bank's condition to the Minister and the Minister may, without waiting for the bank to suspend payment in specie or Dominion notes of any of its liabilities as they accrue, request the Association or the President of the Association to appoint a curator to supervise the affairs of such bank, and such request shall have the same effect as if the bank had suspended payment in specie or Dominion notes of any of its liabilities as they accrued, and a curator shall forthwith be appointed as provided in section 117 of this Act.

Clause 11 read, amended, and agreed to as follows.

11. The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister.

Clause 12 read and agreed to as follows:

12. All salaries, remuneration and other expenses incidental to giving effect to this section shall be paid out of the Consolidated Revenue Fund, and the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon the average total assets of the banks respectively during the year, as shown by the monthly returns made by the banks to the Minister under section 112, and such assessment shall be paid by the banks.

Clause 13 read. Clause stands for further consideration.

On motion of Mr. Hanson, the Committee adjourned at 1.20 o'clock p.m. to meet at 11 o'clock a.m. to-morrow, Thursday, June 19, 1924.

S. R. GORDON,  
*Clerk to Committee.*

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

THURSDAY, June 19, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Black (Halifax), Bristol, Carmichael, Caruthers, Casgrain, Chaplin, Clifford, Coote, Crearer, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Healy, Hodgins, Hughes, Irvine, Jacobs, Kellner, Maclean (York), Macphail (Miss), McCrea, McKay, McMaster, McQuarrie, Marler, Maybee, Morin, Papineau, Rankin, St. Père, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Tobin, Vien, Ward, Woods and Woodsworth—47.

The Chairman reported to the Committee that the Clerk had received from Mr. Austin Bill, Revenue Division, Post Office Department, a set of the forms used in connection with the postal savings banks and that these would be filed as Exhibit No. 21.



Previous notice having been given, Mr. Maclean moved:

"That in the opinion of this Committee the Post Office Savings Banks' system of Canada be extended by marking cheques against accounts in same at the office of deposit."

The Chairman ruled as follows:

"I have to rule that the Order of Reference to this Committee empowers us to consider the provisions of the Bank Act; the Order reads that the Committee 'should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally.' Mr. Maclean's motion would be in the form of an amendment to the Act governing the Post Office Department; therefore I do not believe that it falls within the scope of the Order of Reference to this Committee."

The Chairman's ruling was sustained.

### *Notice of Motion*

Mr. Maclean gave notice that on a subsequent date he would move the following, the same being a substitution for a previous Notice of Motion now on the order paper:

"That the Ontario Provincial Government be asked to send a representative of their Provincial Savings Branch to give this Committee some idea of the business they are doing in that Province; and that the Postmaster General of Canada be requested to attend before this Committee."

Notice of Motion on the order paper, standing in the name of the Acting Minister of Finance and entitled "Bill entitled 'An Act to amend the Bank Act.' Section 56A of the Bank Act is repealed, and the following substituted therefor. *Inspection.*" again under consideration.

Clause 13 read, as follows:

13. All persons appointed under this section shall be officers of the Department of Finance, but the provisions of the Civil Service Act, 1918, shall not apply to such persons.

Mr. Shaw moved that the clause be amended by striking out the last three words, "to such persons," and substituting therefor the words, "except as to necessary clerical assistance."

The question being put on Mr. Shaw's motion, it was negatived on division: yeas 10, nays 27.

Clause 13 was agreed to as previously read.

Clause 6 read as follows:

6. The Inspector shall at least once in each calendar year and oftener if considered necessary make or cause to be made an examination and inquiry into the affairs and business of each bank, and shall, at the conclusion of such examination and inquiry, report thereon to the Minister. Such examination and inquiry shall be conducted at the chief office of the bank, or office of the General Manager if the office of the General Manager is at a place other than the chief office of the bank, and it shall not be necessary to conduct any part of such examination at branches of the bank unless in the judgment of the Inspector an examination of any one or more of such branches is necessary.

## APPENDIX No. 1

Mr. Robb moved that all the words after the figure "6" in the first line be struck out and the following substituted therefor:—

6. The Inspector, from time to time, but not less frequently than once in each calendar year shall make or cause to be made such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient, and for such purposes to take charge of the assets of the bank or any portion thereof, if the need should arise, for the purpose of satisfying himself that the provisions of this Act have reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound financial condition. The Inspector at the conclusion of each such examination and inquiry shall report thereon to the Minister.

The question being put on Mr. Robb's motion it was agreed to in the affirmative.

Clause 9 read, as follows:—

9. The Inspector, or person acting under his direction, shall have power to examine under oath the general manager and any of the other officers of the bank, and a general manager or other officer who refuses to submit to such examination commits an offence against this Act and is liable as provided in Section 157 of this Act.

Mr. Robb moved that all the words after the figure "9" in the first line be struck out and the following substituted therefor:—

9. The Inspector shall have all the powers conferred upon a Commissioner appointed under the Inquiries Act for the purpose of obtaining evidence under oath, and may delegate such powers as occasion may require. Any person who refuses to give such evidence or to produce any book or document material thereto when required so to do shall be guilty of an offence against this Act.

The question being put on Mr. Robb's motion it was agreed to in the affirmative.

Clause 14 read, amended and agreed to as follows:—

14. Any bank or any director, president, general manager or any officer of a bank who directly or indirectly makes a loan or grant or gives any gratuity to the Inspector or any other person appointed or employed under this section, and the Inspector or any such person who accepts or receives, directly or indirectly, any such loan, grant or gratuity, commits an offence against this Act, and is liable as provided in section 157 of this Act, in addition to any punishment otherwise provided.

Clause 15 read, amended and agreed to as follows:—

15. The Inspector or any person appointed or employed under this section who disclose to any other person, except the Minister and the Deputy Minister of Finance, any information regarding a bank, its business or affairs commits an offence against this Act and is liable as provided in section 157 of the Act.

Clause 16 read and agreed to, as follows:—

16. Provided however that the Government shall not incur any liability whatever to any depositor, creditor or shareholder of any bank, or to any other person, for any damages, payment, compensation or indemnity which he may suffer or claim by reason of this section or anything therein contained, or by reason of anything done or omitted to be done under the requirements thereof, or by reason of anything



omitted to be done which is hereby required to be done, or by reason of any order or direction of the Governor-in-Council or of the Minister in the execution or administration of the powers or any of them by this section conferred, or by reason of any failure or omission on the part of Governor-in-Council or of the Minister or of the Inspector, or of any officer or employee of the Government to execute or discharge any power, authority or duty thereunder, or otherwise by reason of any default, negligence, mistake, error or omission in the administration or discharge of the powers or duties which in any circumstances are by this section intended or authorized to be executed or performed; and no such payment, damages, compensation or indemnity, nor any claim therefor, shall in any case be authorized, paid or entertained by the Government.

Clause 17 read and agreed to, as follows:—

17. This section shall come into force on the first day of October, nineteen hundred and twenty-four, but it shall not be incumbent upon the Inspector to examine all of the banks under the section during the calendar year one thousand nine hundred and twenty-four.

On motion of Mr. McKay, seconded by Mr. Maclean

*Ordered*,—That a Report be presented to the House reading as follows:—

“That, pursuant to the Order of Reference from this House of the 31st of March, 1924, Your Committee in view of the failure of the Home Bank, have considered the provisions of the Bank Act with a view to recommending such amendments to the Act as would better protect the interests of bank depositors generally, and would prevent similar occurrences in the future:

And your committee are of the opinion that it is expedient to bring in a measure to amend the Bank Act and they therefore recommend that the said Act be amended as follows:

That Section 56A of the Bank Act be repealed, and the following substituted therefor:

*Inspection:*

56A. 1. “The Governor in Council on the recommendation of the Minister shall appoint a person who in his opinion has had proper training and experience who shall be charged with the performance of the duties hereinafter mentioned. Such person shall be designated “Inspector General of Banks.” The Minister may direct some other such person to temporarily perform the duties of the inspector should the inspector, by reason of illness or other contingency, be unable to perform such duties.”

2. The Inspector shall hold office during good behaviour, but may be removed from office by the Governor in Council for misbehaviour or incapacity, inability, or failure to perform his duties properly.

3. If the Inspector is removed from office for any such reason the order in council providing for such removal and documents relating thereto shall be laid before parliament within the first fifteen days of the next ensuing session.

4. The Inspector while holding office shall not perform any service for compensation other than the service rendered by him under the provisions of this section.

5. “The Minister may appoint or employ on the recommendation of the Deputy Minister of Finance and the inspector, such persons with training and experience and such clerical assistants as may be deemed



necessary to carry out and give effect to the provisions of this section. Persons so appointed or employed shall receive such salary or remuneration as may be fixed by the Minister."

6. The inspector, from time to time, but not less frequently than once in each calendar year shall make or cause to be made, such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient, and for such purposes to take charge of the assets of the bank or any portion thereof, if the need should arise for the purpose of satisfying himself that the provisions of this act having reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound financial condition. The inspector at the conclusion of each such examination and inquiry shall report thereon to the minister.

7. A copy of all reports made by the auditors of a bank to the general manager and to the directors under the next preceding section shall be transmitted or delivered to the minister by the auditors at the same time as such reports are transmitted or delivered to the general manager and directors.

8. The inspector, or person acting under his direction, shall have a right of access to the books and accounts, documents, vouchers and securities of the bank, and shall be entitled to require and receive from the directors, officers and auditors of the bank such information and explanation as he may deem necessary for the performance of his duties.

9. The inspector shall have all the powers conferred upon a commissioner appointed under the Inquiries Act for the purpose of obtaining evidence under oath, and may delegate such powers as occasion may require. Any person who refuses to give such evidence or to produce any book or document material thereto when required so to do shall be guilty of an offence against this act.

10. Whenever the inspector is satisfied that a bank is insolvent he shall report fully on the bank's condition to the minister and the minister may, without waiting for the bank to suspend payment in specie or Dominion notes of any of its liabilities as they accrue, request the association or the president of the association to appoint a curator to supervise the affairs of such bank, and such request shall have the same effect as if the bank had suspended payment in specie or Dominion notes of any of its liabilities as they accrued, and a curator shall forthwith be appointed as provided in section 117 of this act.

11. The inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the minister.

12. All salaries, remuneration and other expenses incidental to giving effect to this section shall be paid out of the Consolidated Revenue Fund, and the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon the average total assets of the banks respectively during the year, as shown by the monthly returns made by the banks to the minister under section 112, and such assessment shall be paid by the banks.

13. All persons appointed under this section shall be officers of the Department of Finance, but the provisions of the Civil Service Act, 1918, shall not apply to such persons.

14. Any bank or any director, president, general manager or any officer of a bank who directly or indirectly makes a loan or grant or gives any gratuity to the inspector or any other person appointed or employed under this section and the inspector or any such person who

accepts or receives directly or indirectly, any such loan, grant or gratuity, commits an offence against this act, and is liable as provided in section 157 of this act, in addition to any punishment otherwise provided.

15. The inspector or any person appointed or employed under this section who discloses to any other person, except the Minister and the Deputy Minister of Finance, any information regarding a bank, its business or affairs commits an offence against this act and is liable as provided in section 157 of the act.

16. Provided, however, that the government shall not incur any liability whatever to any depositor, creditor or shareholder of any bank, or to any other person, for any damages, payment, compensation, or indemnity which he may suffer or claim by reason of this section or anything therein contained, or by reason of anything done or omitted to be done under the requirements thereof, or by reason of anything omitted to be done which is hereby required to be done, or by reason of any order or direction of the Governor in Council or of the minister in the execution or administration of the powers or any of them by this section conferred, or by reason of any failure or omission on the part of the governor in council or of the minister or of the inspector or of any officer or employee of the government to execute or discharge any power, authority or duty thereunder, or otherwise by reason of any default, negligence, mistake, error or omission in the administration or discharge of the powers or duties which in any circumstances are by this section intended or authorized to be executed or performed; and no such payment, damages, compensation or indemnity, nor any claim therefor, shall in any case be authorized, paid or entertained by the government.

17. This section shall come into force on the first day of October, nineteen hundred and twenty-four, but it shall not be incumbent upon the inspector to examine all of the banks under the section during the calendar year of one thousand nine hundred and twenty-four. (Presented to House, Friday, June 20, 1924. See pages 423, 424, 425, Votes and Proceedings. Concurrence moved, concurred in, Monday, June 22, 1924. See page 432, Votes and Proceedings.)

"Motions on the Order Paper" being called.

No. 1, in the name of Mr. Ladner, was allowed to stand at the request of Mr. Hanson, for Mr. Ladner.

No. 2, in the name of Mr. Ladner, was allowed to stand at the request of Mr. Hanson, for Mr. Ladner.

No. 3. Mr. Spencer moved

"That the Bank Act be amended to provide that the moneys in the Circulation Fund shall first be applied to the payment of the notes of a bank which has suspended payment and that the other assets of the bank be not applied to the payment of such notes until the moneys in the said fund are first exhausted."

Discussion followed.

No. 3 to stand as Notice of motion for next meeting.

By unanimous consent, on motion of Mr. Descoteaux, seconded by Mr. Benoit.

Ordered,—“That Exhibit No. 16 ‘The tragedy of artificial ‘Deflation’ be printed as an appendix to the Minutes of Proceedings.”



## APPENDIX No. 1

Mr. Garland moved, seconded by Mr. Ward,

"That this Committee meet at 11 o'clock a.m. to-morrow, Friday, June 20, 1924."

The question being put, it was agreed to in the affirmative on division; yeas 18, nays 9.

The Committee adjourned at 1.25 o'clock p.m. to meet again at 11 o'clock a.m. to-morrow, Friday, June 20, 1924.

S. R. GORDON,  
*Clerk of Committee.*

## NOTE

Meeting called for Friday, June 20, 1924, was postponed until Wednesday, June 25, 1924.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 231,  
WEDNESDAY, June 25, 1924.

The Committee met at 11 o'clock, a.m.

The Chairman, Mr. Vien, presided.

Present: Messieurs Benoit, Bird, Bristol, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Crerar, d'Anjou, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Garland (Bow River), Good, Guthrie, Hanson, Harris, Hatfield, Healy, Hodgins, Hudson, Irvine, Kellner, King (Huron), Ladner, Low, Macdonald (Pictou), Maclean (York), Macphail (Miss), McKay, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Miller, Morin, Papineau, Power, Rankin, Robb, Ryckman, St. Père, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Stevens, Tobin, Vien, Ward, Woods, Woodsworth—61.

By unanimous consent, on motion of Mr. Shaw, seconded by Mr. Spencer,

Ordered,—“That the time for receiving notices of motion be extended until Thursday next, June 26, 1924.”

Mr. Spencer raised the question as to the scope of the Order of Reference. Mr. Irvine also spoke on the matter. The Chairman informed the Committee that the Order of Reference had been referred to His Honour, the Speaker, for his opinion.

The Committee was addressed by members of the Home Bank Depositors' Relief Committee, and others, as follows:—

Mr. W. T. J. Lee, Chairman, Home Bank Depositors' Relief Committee, Toronto, Ont.; Mr. R. J. McLaughlin, K.C., Toronto, Ont.; Mr. A. G. Browning, K.C., Hamilton, Ont.; Mr. W. W. Hiltz, Mayor, Toronto, Ont.; Mr. H. H. Higginbotham, Calgary, Alta.; Mr. J. F. Edgar, Toronto, Ont.; M. J. T. Foster, President, Trades and Labour Council, Montreal, P.Q.; Mr. V. A. Sinclair, Hamilton, Ont.; Mr. R. J. Tallon, President, Federated Railway Trades, Toronto, Ont.; Mr. A. Geo. McHugh, Ottawa, Ont.; Dr. Paul Fisson, Mayor, Tecumseh, Ont.; Mr. H. Winfield, Montreal, P.Q.; Mr. J. H. Mitchell, Mayor, Alliston, Ont.; Mr. T. J. Turnbull, County of Middlesex, Ont.; Mr. D. M. Eagle, County of Essex, Ont.; Mr. J. E. Coombs, County of Simcoe, Ont.; Mr. Alfred



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Mapes, Walkerville, Ont.; Mr. John O'Reilly, Reeve of Lindsay, Ont.; Mr. G. G. Henderson, Mayor, Fernie, B.C.; Rev. Dr. Treacy, West Toronto, Ont.; Mr. I. E. Weldon, Joint Liquidator, Home Bank, Toronto, Ont.

Mr. M. M. Gripstone, also spoke on behalf of the shareholders of the Home Bank.

Mr. Robb, Acting Minister of Finance, made a brief statement.

By consent, Mr. Shaw moved, and Mr. Spencer seconded a vote of thanks to the Committee of the Home Bank Depositors for presenting their views to the Committee.

The motion was unanimously carried and the thanks of the Committee tendered to the delegation by the Chairman.

The Committee adjourned at 1.35 o'clock p.m., to meet at 11.00 o'clock a.m. to-morrow, Thursday, June 26, 1924.

S. R. GORDON,  
*Clerk of Committee.*

# NOTE

Meeting called for Thursday, June 26, 1924, was postponed until Tuesday, July 1, 1924.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
TUESDAY, July 1, 1924.

The Committee met at 11 o'clock, a.m.

The Chairman, Mr. Vien, presided.

*Present:* Messieurs Benoit, Black (Halifax), Boivin, Bristol, Caldwell, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Crerar, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Euler, Garland (Bow River), Good, Grimmer, Hanson, Hatfield, Healy, Hodgins, Hughes, Irvine, Kellner, Macdonald (Pictou), Mackinnon, Maclean (York), McCrea, McKay, McMaster, McQuarrie, McTaggart, Marler, Maybee, Morin, Papineau, Power, Rankin, Robb, St. Père, Sales, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Speakman, Spencer, Steedsman, Tobin, Vien, Ward, Woods, Woodsworth—57.

The Chairman read letter received from Mr. G. T. Clarkson, liquidator of the Home Bank, as follows:—

TORONTO, June 21st, 1924.

THOMAS VIEN, Esq., K.C., M.P.,  
Chairman,  
Select Standing Committee on Banking and Commerce,  
House of Commons, Ottawa.

*Re Home Bank of Canada*

Dear Sir:—

In answer to your inquiry *re*: 1. Total amount of deposits of the Home Bank, 2. the proportion of deposits paid to depositors, 3. prospective further payments to depositors, 4. collections on account of double liability, and 5. claims against Directors of the Home Bank of Canada.

I beg to state as follows:

1. *Re Total amount of deposits* according to statement presented at the time of suspension, the total claims of depositors and those who held drafts and cheques on the Home Bank of Canada, and the banking correspondents of such bank amounted to \$15,531,552.

Since such statement was prepared, a considerable amount of deposits has been liquidated by set-offs and as counter claims and the approximate claims (other than in respect of circulation and amounts due to Dominion and Provincial Governments) are as follows:

Due to depositors.. . . . .	\$14,767,511
Approximate amounts due to Canadian Banks	175,000
Claims of foreign Banks.. . . . .	208,932
Drafts issued out-standing, Canadian.. . . . .	109,681
Drafts issued out-standing, American.. . . . .	22,090
Rental and damages claims.. . . . .	15,000
Reserve for contingencies.. . . . .	250,000

Total.. . . . .	\$15,548,214
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In addition to these claims, there is due to the province of Ontario, approximatively \$1,250,000; there is due for out-standing circulation, approximatively \$67,896; and to the Dominion Government \$49,000 which may be offset by taxes to be refunded.

2. *Proportion of deposits paid to depositors.*—At the time of payment of the 25 per cent dividend which was declared about December 22nd, 1923, the sum of \$3,453,590 was deposited with Canadian Banks to meet 25 per cent of the claims of depositors.

Of such amount dividends have been drawn for all except \$300,000 which remains uncalled for, or the subject-matter of dispute.

3. *Prospective further payments to depositors.*—In answer to your inquiry relative to prospective further payments to be made to depositors, I desire to state that it is impossible at this juncture to determine what amount will be realized from a number of important assets, and this, in addition to the fact that litigation is pending whereunder depositors seek to recover full payment of deposits made by them shortly preceding the suspension, and a large number of shareholders on their part, are also seeking to avoid payment of double liability on the ground that shares issued to them were not legally and properly issued, makes it completely impossible for me at this time to give you any definite information as to what the estate of the Bank will return to depositors.

A dividend of 25 per cent has already been paid to creditors, and so far as I can see, if the estate of the Bank should meet with reasonable success upon realization of its assets, and avoid having to repay in full those deposits which were made shortly prior to its failure, there seems to be a probability that the Bank will return creditors upwards of 10 per cent more, or a total of 35 per cent upon their claims.

If the depositors seeking return of moneys deposited in the Bank shortly prior to the failure should be successful in their litigation, the probability is that the dividend would not exceed 30 per cent. If shareholders shall in addition avoid double liability, there is no certainty that any further dividend beyond that already paid will accrue to creditors.

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In making these estimates, which cannot possibly be definite, I desire to point out that the estate still owes about \$68,000 on account of circulation, approximately \$1,300,000 to Dominion and Provincial Governments, and \$1,200,000 in respect of moneys borrowed from Canadian Banks to permit the payment of the dividend of 25 per cent already disbursed to creditors.

4. *Collections on account of double liability:* Collections to date amount to \$329,705 while the sum of \$1,722,864 remains unpaid in respect of the principal of capital stock unpaid, premiums thereon and double liability.

As such amount of \$1,722,864 upwards of \$500,000 is owed by persons who are known to be without financial responsibility while a large portion of the balance is owing by persons whose responsibility is questionable.

Under such circumstances, it is my opinion that the Bank cannot rely upon a recovery of more than \$300,000 to \$400,000 in respect of the double liability still unpaid.

As before mentioned, a large number of stock holders are contesting liability on the ground that the shares held by them were not legally issued, and if they shall succeed, the chances are that the Bank may not recover more than \$300,000 out of its claims. In other words it will not get much more than the collection made to date.

5. *Re: Claims against Directors:* The estate has issued a writ against Directors for the recovery of \$5,000,000 in respect of misfeasance. The right of the Bank to recover from Directors is the subject of dispute, and if the Bank shall succeed its recovery will be limited to the value of the assets owned by Directors. In my opinion this recovery will not exceed more than \$250,000 to \$300,000.

I am sorry that I am not able to give you more definite information, but with the value of the assets and the outcome of litigation both uncertain, no statement accurate enough to be depended upon can be made until the litigation is disposed of, and sufficient time has elapsed to determine with a greater degree of accuracy what probable amount will be realized from more important assets.

Yours truly,

(Signed) G. T. CLARKSON.

The Chairman also read letter and resolution received from the Chairman and Counsel of the Home Bank National Depositors' Relief Committee, as follows:—

OTTAWA, Ont., June 26th, 1924.

THOMAS VIEN, Esq., M.P.,  
Chairman,

Banking and Commerce Committee, House of Commons,  
Ottawa.

*Re Home Bank.*

Dear Mr. Vien:—

I have the honour to transmit to you a resolution unanimously passed by the National Depositors' Relief Committee at the meeting held here yesterday, and would be glad should you deem it advisable to have the same brought to the attention of your Committee.



## APPENDIX No. 1

I am taking the liberty of transmitting a copy to the Premier and to Mr. Robb, the acting Minister of Finance.

Thanking you for the many courtesies extended to me and the Committee, I have the honour to be,

Yours very truly,

W. T. J. LEE,  
*Chairman, National Depositors'  
Relief Committee.*

RESOLUTION unanimously passed by the National Depositors Relief Committee, at a meeting held at Ottawa on the 25th June, 1924.

Whereas the estimates of the Joint Liquidators of the Home Bank of Canada show that aside from the twenty-five (25) per cent dividend already paid, there is a possibility that another dividend may be paid in any event not exceeding fifteen (15) cents on the dollars;

Whereas the depositors feel that they have established a just claim upon the Government for relief by reason of losses suffered owing to the Home Bank's failure;

Be it resolved:

That the Government be respectfully requested to pay to the depositors sixty (60) cents on the dollar on the amount of their respective claims, which payment the National Depositors Committee will accept on behalf of the depositors in full of all claims for relief from the Government;

And that in the event of the liquidators declaring a further dividend in excess of fifteen (15) cents on the dollar, that the Government be and is hereby subrogated in the rights of the depositors to all such further dividends in excess of fifteen (15) cents on the dollar.

R. J. McLAUGHLIN, K.C.,

W. T. J. LEE,

A. G. BROWNING, K.C.

*Counsel for the National Depositors Relief Committee.*

The Chairman also read letter received from the Home Bank Depositors' Association of Calgary, which was ordered to be filed with the records of the Committee.

The Chairman stated that the sub-committee appointed to consider the "McKeown Report" on the Home Bank were ready to make their report, and requested the Committee to express their wishes as to whether or not the report should be received and discussed by the Committee *in camera*.

Mr. Woodsworth moved, seconded by Mr. Irvine.

"That the press be admitted to this session as has been the case at all other sittings of the Committee."

The question being put, it was declared lost in the negative, on division:  
Yeas: 8. Nays: 17.

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Mr. Marler, as acting Chairman, read the report of the sub-committee, on the "McKeown Report" as follows:—

REPORT of the Sub-Committee appointed for the purpose of studying the Interim Report on the Home Bank submitted by Mr. Justice McKeown.

To The Select Standing Committee on Banking and Commerce of the House of Commons of Canada, Ottawa, Ont.:

By unanimous consent at a meeting of the Select Standing Committee on Banking and Commerce (hereinafter referred to as the Committee) held on Thursday the 12th of June, 1924, it was ordered:

"That a Sub-Committee of five members to be selected by the Chairman be appointed for the purpose of studying the Interim Report on the Home Bank submitted by Mr. Justice McKeown, and report back to this Committee their recommendations thereon for consideration".

At a subsequent meeting of the Committee held on Tuesday the 17th of June, 1924, the Chairman reported that he had appointed a Sub-Committee of five members for the purpose as set out in the said order.

At the same meeting, namely, the 17th June, 1924, the Committee subsequently resolved that the Sub-Committee referred to in the order passed by the Committee on the 12th of June, 1924, and above quoted, (hereinafter referred to as the Sub-Committee) be enlarged to seven members, and at the same meeting it was also ordered as follows:

"That this Committee hear a deputation of the Home Bank depositors, a week from to-morrow Wednesday, June 25th, 1924, and that the Sub-Committee take cognizance simply of the McKeown Report, and do not hear witnesses".

Your Sub-Committee have sat from time to time, and have studied the Interim Report on the Home Bank submitted by Mr. Justice McKeown.

Your Sub-Committee consider that the facts therein brought out and the evidence therein referred to, clearly establish that the depositors of the Home Bank have no claim under the law of the land for compensation by the country on account of any loss they may suffer by reason of the failure of the Home Bank.

But your Sub-Committee also consider that, in view of the representations made to the Department of Finance in the years 1916 and 1918, the Government of the time could have made in 1916 and in 1918 an effective audit under Section 56-A of the Bank Act, and if such an effective audit or thorough investigation into the bank's affairs had been made it would have resulted:—

1. The immediate liquidation of the bank, or
2. Its amalgamation with another bank, and that the effect would have been, no loss to the depositors in 1916 or 1918.

Your Sub-Committee have studied the evidence given before the Royal Commission by Sir Thomas White, who was then Minister of Finance, and particularly his statements: "I would never think of putting in a special auditor in a bank and taking chances, especially at a time like that, of closing the bank;" (page 345) and further: "Under no circumstances would I have allowed a bank to fail during the period in question. I had many difficult and dangerous financial situations to deal with during the War. At its outbreak, in view of the panic which

## APPENDIX No. 1

prevailed, the Government, at my instance, placed itself behind the banks of Canada and gave public assurance that it would loan them such sums as they might require to meet the conditions of the War, and would take all further steps necessary to safeguard the financial situation during its continuance;" (page 359) and further: "The action I took was in my discretion; in exercising his discretion, a Minister must have regards to conditions, because conditions have a direct bearing upon the consequences attendant on his action to the bank and the general situation. If you make a mistake in putting in an auditor, in peace time the consequence may be a run producing little effect upon the bank; if in war time, you may bring down the bank, and in addition you may cause an unspeakable calamity to the country." (page 743.)

Your Sub-Committee is not called upon to question the manner in which Sir Thomas White made use of the powers given him, or whether he exercised his discretion correctly or otherwise.

Your Sub-Committee consider that the facts brought out in the Interim Report submitted by Mr. Chief Justice McKeown, and the evidence therein referred to, establish that the depositors of the Home Bank have a moral claim in equity for compensation by the country on account of any loss they may suffer by reason of the failure of the Home Bank.

Your Sub-Committee are also of the opinion that the Standing Committee on Banking and Commerce should recommend to the House of Commons that the Government take into immediate consideration the desirability of paying to the said depositors the compensation mentioned in the foregoing paragraph, as soon as possible.

HERBERT MARLER,  
*Acting Chairman.*

Mr. Marler moved, seconded by Mr. Spencer

"That the Report of the sub-committee as read, be adopted."

Discussion followed.

By consent, Mr. Marler moved, seconded by Mr. Spencer,

"That the report of the sub-committee be amended by expunging the last paragraph of their report."

The question being put on the amendment, it was agreed to in the affirmative, on division: Yeas: 29, Nays: 9.

Discussion followed.

The question being put on the main motion it was agreed to in the affirmative on division: Yeas, 27; Nays, 11, and the Chairman ordered to present a report to the House this afternoon embodying the principles of the report of the sub-committee as agreed to by this Committee. (Report (No. 11) appears on page xii.)

The Committee adjourned at 1.45 o'clock p.m. to meet at 11 o'clock a.m. to-morrow, Wednesday, July 2, 1924.

S. R. GORDON,  
*Clerk of Committee.*



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HOUSE OF COMMONS,

COMMITTEE ROOM 429

WEDNESDAY, July 2, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

*Present*:—Messieurs: Baxter, Benoit, Bird, Black (Halifax), Bristol, Cahill, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Crerar, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Euler, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Healy, Hodgins, Hughes, Irvine, Jacobs, Kellner, Ladner, McKinnon, Maclean (York), McKay, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Mewburn, Miller, Morin, Papineau, Power, Robb, Robichaud, Robitaille, St. Pere, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Stevens, Vien, Ward, Woods, Woodsworth.—61.

Mr. McKay, Chairman of the Sub-Committee on "Rural Credits" and "Bankruptcy", reported for the sub-committee, as follows:—

## REPORTS

### SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

#### SUB-COMMITTEE ON EMERGENCY LEGISLATION IN RESPECT TO RURAL CREDITS

Your Committee on Emergency Legislation in Respect to Rural Credits beg leave to report as follows:—

(1) That any plan devised for the purpose of giving Federal aid to the provinces should be applicable to all of Canada;

(2) That at the present moment, in only six of the nine provinces of Canada are there Provincial Government organizations, through which Federal aid could be made available;

(3) That it would not be possible to create new machinery for utilizing such aid covering the whole of Canada in time to be effective this year;

(4) In view of the foregoing, it would appear wiser for the Committee to concentrate its attention upon the possibility of the development of a more general scheme of a permanent character.

M. McKAY,

*Chairman, Sub-Committee.*

Your sub-committee also begs to recommend that the "Bankruptcy Act" be amended as follows:

### AN ACT TO AMEND THE BANKRUPTCY ACT

1. This Act may be cited as "The Bankruptcy Act Amendment Act, 1924."

2. The Bankruptcy Act is amended by inserting after section 8 B. thereof the following section:

"8C (1) Notwithstanding anything contained in this Act, if the Lieutenant-Governor in Council of any province has authorized any officer of the provincial government, charged under a provincial statute

## APPENDIX No. 1

with duties which in the opinion of the Lieutenant-Governor are analogous in any respect to the duties of custodian and trustee, to act as custodian and trustee under this Act, the Official Receiver shall in the case of an assignment by a person engaged solely in farming or the tillage of the soil appoint such officer as custodian."

"(2) Any officer so appointed to the office of custodian by the Official Receiver shall thereupon in addition to such office be and be deemed to be the authorized trustee as if appointed under subsection (1) of section 15 of this Act, and shall continue to be the authorized trustee until properly removed under subsection (2) of the said section 15."

"(3) In case any such provincial officer is appointed custodian and trustee, he shall not be entitled to be paid any remuneration as custodian or trustee nor any of the costs enumerated as costs of custodian in Part III of the General Rules."

4. Section 59 of the Bankruptcy Act is hereby amended by adding thereto the following subsection:

"(2) Paragraphs b, c,....of the preceeding subsection, shall not apply in the case of an application for discharge by any assignor who at the time of the authorized assignment was engaged solely in farming or the tillage of the soil."

This section shall remain in force for two years only.

M. McKAY,  
Chairman, Sub-Committee.

"Motions on the Order Paper" having been called.

No. 3. Mr. Spencer moved:

That Section 131, subsection (a) of the Bank Act, be repealed and the following substituted therefor:—

(In case of the insolvency of any bank)

(a) The notes issued or reissued by such Bank, intended for circulation and then in circulation, together with any interest paid or payable thereon, as hereinbefore provided, shall be redeemed out of the Bank Circulation Redemption Fund, up to the amount of the said Fund; and the balance of such notes, if any, then remaining unredeemed shall be a first charge on the assets of the said Bank. If, upon the winding up of the said Bank, and after all liabilities have been paid, there remains in the hands of the liquidator any balance, the same shall be used to reimburse the said Circulation Fund by the amount contributed thereto by the other Banks, and used thereout for the redemption of the said notes. If the said balance remaining in the hands of the liquidator is not sufficient to reimburse the said Circulation Fund by the said amount, the other banks shall contribute thereto as provided for in Section 66 of this Act."

Discussion followed.

The question being put, the motion was negatived on division: Yeas 20; Nays 33; the names being called for were taken down as follows:—

*Yeas:* Messrs. Bird, Cahill, Carruthers, Coote, Elliott (Dundas), Garland (Bow River), Good, Hughes, Irvine, Kellner, Maclean (York), McKay, St. Pere, Sales, Shaw, Spencer, Steedsman, Ward, Woods, Woodsworth—20.

*Nays:* Messrs. Baxter, Benoit, Black (Halifax), Bristol, Carmichael, Casgrain, Chevrier, Crerar, Desaulniers, Descoteaux, Duncan, Euler, Grimmer, Guthrie, Hanson, Harris, Hodgins, Ladner, Mackinnon, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Mewburn, Miller, Morin, Power, Robb, Robitaille Senn, Sinclair (Oxford)—33.

No. 1. Mr. Ladner moved:

"That this Committee recommend to Parliament the elimination from the Bank Act 1923, of all provisions relating to double liability of shareholders and that accordingly section 125 of the said Act and other sections relating to question of double liability be repealed."

Discussion followed. Motion dropped by consent.

No. 2. Mr. Ladner moved:

### SAVINGS DEPOSITS AND THEIR PROTECTION

"That in the opinion of this Committee the Bank Act should be amended in order to provide for the establishment in the chartered banks of Canada of a special savings account or other class of accounts for savings deposits in addition to those now existing, whereby all holders of deposits in such special savings account in any one bank, or branch thereof, shall be protected or guaranteed against loss up to the sum of \$3,000 according to a similar principle as that now provided for in sections 62 to 69 inclusive of the Bank Act relating to the protection of bank notes by the establishment of a fund known as the Bank Circulation Redemption Fund, or that such special savings account be established in accordance with some other principle of insurance the premium of which will be paid by the depositors or the chartered banks of Canada, or both, or in such other manner as the committee may consider capable of giving reasonable protection to depositors of money in savings accounts in such sums as the committee may determine."

Discussion followed. Motion dropped by consent.

No. 4. Mr. Hodgins moved:

"Resolved that Section 131 of the Bank Act be amended so that Government deposits will not have precedence over private deposits."

Discussion followed.

Mr. Spencer moved, seconded by Mr. Garland, that the said motion be amended by inserting the word "federal" between the words "that" and "government" in the second line thereof.

Discussion followed.

The question being put on the amendment it was negatived on division: Yeas 5; Nays 22.

Discussion followed.

The question being put on the main motion it was negatived on division: Yeas 15; Nays 18.

No. 5. Mr. Coote moved:

"That in the opinion of this Committee, legislation should be brought down this session to provide for the establishment of long-term rural credits."

By consent, the motion stands to be considered in connection with the report of the sub-committee on "Rural Credits."



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No. 6. Mr. Coote moved:

"That this Committee recommend an amendment to the Bank Act which should provide that in each office of a chartered Bank in Canada, notice should be displayed in large type in a prominent position, stating that the Government of Canada assumes no responsibility in regard to any moneys deposited in the said Bank."

Discussion followed.

The motion stands for further consideration.

On motion of Mr. Chevrier, the Committee adjourned at 1.05 o'clock p.m., to meet at 11 o'clock a.m. to-morrow, Thursday, July 3, 1924.

S. R. GORDON,  
Clerk of Committee.

## HOUSE OF COMMONS,

COMMITTEE ROOM, 429,

THURSDAY, July 3, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presided.

Present: Messrs. Baxter, Benoit, Bird, Black (Halifax), Black (Yukon), Boivin, Bristol, Cahill, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Clark, Clifford, Coote, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Euler, Fafard, Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Kellner, Ladner, Macdonald (Pictou), Mackinnon, Maclean (York), Miss Macphail, McCreagh, McKay, McMaster, McTaggart, Malcolm, Marler, Maybee, Mewburn, Miller, Morin, Papineau, Power, Rankin, Robb, St. Pere, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Tobin, Vien, Ward, Woods, Woodsworth.—66.

"Motions on the Order Paper" having been called.

No. 6. Mr. Coote moved:

"That this Committee recommend an amendment to the Bank Act which should provide that in each office of a chartered Bank in Canada, notice should be displayed in large type in a prominent position, stating that the Government of Canada assumes no responsibility in regard to any moneys deposited in the said Bank."

Discussion followed.

The question being put the motion was negatived on division: Yeas, 8; Nays, 29.

No. 7.—Mr. Coote moved:

"That the Bank Act be amended by adding thereto as Section 113-A, the following:—

'There shall be posted up within 15 days from the end of each calendar month in every branch of the Bank in a conspicuous place on the premises thereof, accessible to the public, a statement signed by the Manager or Acting Manager of such branch, showing the total moneys on deposit in said branch and total loans outstanding on the last day of the preceding month.'

Discussion followed.

The question being put, the motion was negatived on division: Yeas, 6; Nays, 33.

No. 8.—Mr. Coote moved:

“That this Committee request the permission of the House of Commons to print such of its discussions as it may deem expedient.”

Discussion followed. By consent the motion was withdrawn.

No. 9.—Mr. Coote moved:

“That in the opinion of this Committee, the Banking Act should be amended by adding a section which should provide for limitation of the amount of a loan which could be made by any Bank to any person, firm or corporation to an amount not exceeding 10 per cent of the paid-up capital and reserve funds of said Bank.”

The Chairman read the following extract, from a letter from Mr. John R. Lamb, General Manager of the Bank of Toronto, addressed to Mr. Henry T. Ross, Secretary, The Canadian Bankers' Association, which was ordered to be printed in the Minutes of Proceedings of to-day.

“We ourselves extend credits which run in excess of 10 per cent of our capital and rest account, taking no security whatever but the paper of the borrower,—this for the reason that the business is of the very best and security unnecessary. These borrowers would have no difficulty whatever in obtaining similar accommodation from any bank in a position to carry them and in the event of the provision in question being passed, we would lose these accounts to one of the larger banking institutions. Moreover, we have several accounts not running into quite such large figures, but which we are satisfied would not continue with a bank not in a position, through an enactment of this kind, to see them through should they require temporarily at any time in the future larger credits. There is no doubt that any sizable concern, looking to the future, would desire to establish connections with one of the larger banks, rather than with a bank of the size of our own, so that in the event, years later perhaps, of requiring large credits, these could not be obtained without the difficulty which would be met if they were carrying on business with a bank of moderate size.

I am quite certain that this proposed limitation would work greatly to the disadvantage of the banks of moderate size. There are factors in the situation to-day unfavourable to the smaller and moderate sized banks in their competition with the large institutions. This provision would work in the same direction and almost compel amalgamations.

We have never in our own experience of over sixty years, met with serious difficulties in connection with a large account. A certain measure of risk may be taken with small business, but large business must be on a safe basis.”

The Chairman also read extract from a letter from Mr. A. W. Phipps, General Manager, Imperial Bank of Canada, addressed to Mr. Henry T. Ross, Secretary Canadian Bankers' Association, which was ordered to be printed in the Minutes of Proceedings of to-day.

“I cannot help putting in writing my opposition as General Manager of one of the intermediate Banks to No. 9, the suggested amendment providing for limitation of loans to the amount of 10 per cent of the paid-up capital and reserves of the various Banks. I would consider such an arrangement most unfair, as unduly favoring what might be termed the big Banks who would, if such an amendment were made to the Bank Act, be in a position to compete fiercely for more moderate sized accounts

## APPENDIX No. 1

which would be all that would be left to the intermediate Banks, with the full knowledge that the large accounts were all safely theirs through the limitation of loans imposed by the amendment."

By consent, the motion was withdrawn.

No. 10—Mr. Ladner moved:

"Resolved that this, Committee recommend to Parliament the establishment, in the character banks of Canada, of an additional class of savings accounts whereby all holders of deposits, who may place their money in such class of accounts, in any one bank or branch thereof, shall be protected against loss up to the sum of \$3,000 by the establishment of a fund on an insurance basis, the premiums of which will be contributed by the depositor and the bank in such proportion as may be determined and that the Government work out the details and actuarial data necessary for the establishment of the said proposal and upon conference with the banking institutions of Canada, that legislation may be enacted to carry out the results of the said conference and such scheme as may be evolved."

By consent the motion was amended by adding the words "if practicable" after the word "establishment" in the second line.

Discussion followed.

The motion stands for further consideration.

No. 11—Mr. Spencer moved:

"Resolved that an amendment be added to Section 88a S. S. 1 by inserting the words 'In an amount in excess of \$1,000 after the word 'Act' in the second line thereof."

Discussion followed. By consent the motion was withdrawn.

The Committee adjourned at 1.05 o'clock p.m. to meet at 11 o'clock a.m. to-morrow, Friday, July 4, 1924.

S. R. GORDON,  
Clerk of Committee.

HOUSE OF COMMONS,  
COMMITTEE ROOM 429,  
FRIDAY, July 4, 1924

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, Presided.

*Present:* Messieurs: Benoit, Bird, Black (Halifax), Bristol, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Crerar, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Euler, Fafard, Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Kellner, Ladner, McBride, Macdonald (Pictou), Mackinnon, Maclean (York), McCrea, McKay, McMaster, McQuarrie, McTaggart, Malcolm, Marler, Maybee, Morin, Papineau, Power, Rankin, Rheame, Robitaille, St. Pere, Sales, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Tobin, Ward, Woods, Woodsworth.—60.



"Motions on the Order Paper" having been called:

No. 14—Mr. Maclean moved:

"That the Ontario Provincial Government be asked to send a representative of their Provincial Savings Branch to give this Committee some idea of the business they are doing in that Province; and that the Postmaster General of Canada be requested to attend before this Committee."

By consent, Mr. Maclean amended this motion to read as follows:—

"That the Ontario Provincial Government be asked to send a representative of their Provincial Savings Branch to give this Committee some idea of the business they are doing in that Province; and that the Postmaster General of Canada and the Deputy Minister of Finance be requested to attend before this Committee to give evidence as to the operations of the Postal Savings Banks and the Dominion Savings Bank."

Discussion followed.

The question being put, the motion was negatived on division: Yeas 12; Nays 15.

No. 10—By consent, Mr. Ladner, moved: that the motion standing in his name be amended to read as follows:

"Resolved that this Committee recommend that the government should study and consider the practicability of laying before parliament at a subsequent date the establishment in the chartered banks of Canada, of an additional class of savings accounts whereby all holders of deposits, who may place their money in such class of accounts, in any one bank or branch thereof, shall be protected against loss up to the sum of \$3,000 by the establishment of a fund on an insurance basis, the premiums of which will be contributed by the depositor and the bank in such proportion as may be determined and that the Government work out the details and actuarial data necessary for the establishment of the said proposal and upon conference with the banking institutions of Canada, that legislation may be enacted to carry out the results of the said conference and such scheme as may be evolved."

The question being put, the motion was carried unanimously, and the Chairman was instructed to present the Resolution to the House and the twelfth interim Report of this Committee. (Report appears on page xiii.)

No. 15—Mr. Shaw moved:

Amend Section 36 of the Bank Act by adding thereto subsection 4, reading as follows:—

"Every contract for the sale of shares in the capital stock of the bank is a contract based upon the utmost good faith and requiring a full disclosure of every known material circumstance; if the utmost good faith is not observed or if there is not a full disclosure of every known material fact, the contract may be avoided by the party injured."

Discussion followed.

A point of Order having been raised the Chairman ruled that the motion was not within the scope of the Order Reference.

## APPENDIX No. 1

No. 16—Mr. Shaw moved.

Section 125 of the Bank Act is hereby repealed and the following is substituted therefor:—

125. In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, or in the event that the paid-up capital of the bank has been impaired by losses, or by the payment of dividends or by the payment of bonus or otherwise, each shareholder of the bank shall be liable for such deficiency or for such impairment to an amount equal to the par value of the shares held by him in addition to any amount not paid up on such shares.

(2) "Shareholders," within the meaning of this section, shall include an undisclosed principal and, to the extent of his interest, a *cestui que trust*, on whose behalf or for whose benefit shares in the capital stock of the bank are held.

(3) Subject to the two sub-sections last preceding, if the inspector at any time by inspection or otherwise ascertains that the paid-up capital of a bank has become impaired by losses or by the payment of dividends, or by the payment of bonus, or otherwise, he shall forthwith, upon receiving the approval of the Minister, by a direction in writing addressed to the General Manager, order such bank to restore the amount of such impairment in the paid-up capital by making a call upon the shareholders pro rata to the amount of capital held by each; if such bank neglects within four months after the receipt of such notice to comply with the order of the inspector, the Minister may exercise the powers conferred upon him by sub-section 10 of section 56-A of this Act; provided, however, that if all the subscribed stock has been fully paid up, the Directors of the bank shall, subject to the provisions of this section, have, possess and exercise the same powers with respect to the making of calls on shares and the recovery and enforcement of such calls whether by suit, forfeiture, sale or otherwise, as they now have, possess and exercise under this Act, for the making, recovery and enforcement of calls on unpaid stock.

Discussion followed.

The motion being put it was negatived on division: The names being called for were taken down as follows:—

YEAS: Benoit, Coote, Elliott (Dundas), Garland (Bow River), Good, Hodgins, Hughes, Irvine, Kellner, Maclean (York), Shaw, Spencer, Woods, Woodsworth—14.

NAYS: Black (Halifax), Bristol, Carmichael, Carruthers, Casgrain, Fafard, Harris, Healy, McBride, Mackinnon, McKay, McMaster, McTaggart, Marler, Morin, Papineau, Rheume, Robitaille, St. Pere, Sales, Steedsman—21.

"The Guaranty of Bank Deposits (Submitted as Term Paper in "Advanced Banking," Pol. Econ. 31 Spring Quarter, 1924) University of Chicago," was filed as exhibit No. 24, and the Foreword and Conclusions of same were ordered to be printed as an appendix to the Minutes of Proceedings (See page cxxxvii.)

The Committee adjourned at 1.10 o'clock p.m. to meet at 11 o'clock a.m. on Tuesday, July 8, 1924.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

TUESDAY, July 8, 1924.

The Committee met at 11 o'clock a.m., the Chairman, Mr. Vien, presided.

*Present:* Benoit, Carmichael, Carruthers, Casgrain, Chevrier, Clark, Clifford, Coote, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Kellner, Ladner, McBride, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, McMaster, McTaggart, Malcolm, Marler, Maybee, Mewburn, Millar, Morin, Power, Rankin, Robb, Sales, Senn, Shaw, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Stevens, Tobin, Vien, Ward, Woods, Woods-worth.—57.

“Motions on the Order Paper” having been called,

No. 17—Mr. Garland moved:—

“That Subsection (f) of Section 76 of the Bank Act be amended by striking out all the words after the word ‘be’ in the fifth line thereof and substituting therefor the following: ‘without the unanimous approval of the directors present at a regular meeting of the board or meeting specially called for such purpose, provided that the notice calling any such regular or special meeting shall set out specifically such aforementioned purpose.’”

Discussion followed.

The question being put, it was agreed to in the affirmative, on division: Yeas, 23; Nays, 10. (Presented to House, Wednesday, July 9, 1924. See page 508, Votes and Proceedings. See also pages 544 and 545, Votes and Proceedings.)

On motion of Mr. Kellner, it was unanimously agreed to take up the question of “Rural Credits” now.

Mr. McKay moved the adoption of the report of the sub-committee, as follows:—

Your Committee on Emergency Legislation in respect to Rural Credits beg leave to report as follows:—

(1) That any plan devised for the purpose of giving Federal aid to the provinces should be applicable to all of Canada.

(2) That at the present moment, in only six of the nine provinces of Canada are there Provincial Government organizations, through which Federal aid could be made available.

(3) That it would not be possible to create new machinery for utilizing such aid covering the whole of Canada in time to be effective this year.

(4) In view of the foregoing, it would appear wiser for the Committee to concentrate its attention upon the possibility of the development of a more general scheme of a permanent character.

M. McKAY,  
*Chairman, Sub-Committee.*



Mr. Coote moved as an amendment the following:—

That the report of the Sub-committee be not adopted, but that it be referred back with instructions to reconsider same, and bring in the following report:—

Your Sub-committee is impressed with the urgent necessity existing among Canadian farmers for better, cheaper and more adequate credit facilities, and is of opinion that pending the inauguration of a permanent rural credit scheme, temporary relief should be given by the Dominion Government by way of an emergency measure.

For this purpose, the following recommendations are made:—

1. "That the Federal Government be authorized to set aside a sum of money not exceeding \$15,000,000 to be used where required for Agricultural Credit Loans. This proposition to extend for a period of one year as an emergency measure."

2. "That loans be made to the Provincial Governments to be loaned out through their existing machinery or such other machinery as they may designate, to farmers."

3. "The maximum loan to any one person must not exceed \$5,000. The maximum loan not to exceed 50 per cent of the appraised value of the land plus 25 per cent of the appraised and insured value of the buildings."

4. "The rate of interest charged to the borrower shall not exceed the cost of securing the money by the Government plus 1 per cent to cover all charges of making loans, appraisal, registration, collections, etc."

5. "All loans shall be on the amortized plan, to be amortized in a period not exceeding 35 years."

6. "The Governor General in Council may prescribe such further conditions and regulations as may be deemed advisable for the purpose of carrying into effect the objects herein outlined."

Discussion followed.

The question being put on the amendment it was negatived on division: Yeas, 18; Nays, 28. The names being called for were taken down as follows:—

Yeas: Benoit, Carmichael, Coote, Elliott (Dundas), Garland (Bow River), Good, Hanson, Irvine, Maclean (York), Macphail (Miss), Millar, Sales, Shaw, Spencer, Steedsman, Stevens, Ward, Woodsworth.—18.

Nays: Carruthers, Casgrain, Clark, Clifford, Desaulniers, Descoteaux, Duncan, Elliott (Waterloo), Harris, Hatfield, Hodgins, Hughes, Kellner, McBride, Mackinnon, McCrea, McKay, McMaster, McTaggart, Maybee, Mewburn, Power, Rankin, Robb, Robitaille, Senn, Sinclair (Oxford), Woods.—28.

The question being put on the main motion it was agreed to in the affirmative.

On motion of Mr. McKay it was unanimously agreed to instruct the Chairman to present the following report on rural credits to the House:

Your Committee, pursuant to the Order of reference, dated 6th May, 1921, reading as follows:—

*Ordered*.—That the Report of Doctor Tory on Agricultural Credits, tabled on the 15th April, be referred to the said Committee.

*Attest*.

W. B. NORTHRUP.

*Clerk, House of Commons.*

have had under consideration the report of Dr. Tory on Agricultural Credits.

Said report shows that, of the nine provinces of Canada, seven already have on their statute books laws for the purpose of establishing public systems of agricultural credit; and

Whereas a study of the systems existing in these provinces shows that there is considerable variations in the systems, both as to method and detail; and

Whereas it is the purpose of all such rural credit systems to secure, through the better organization of security, loans for agricultural purposes at better rates of interest than have been current heretofore; and

Whereas it is doubtful if this purpose could be best served by the establishment of a Federal System operating in the above-mentioned provinces in addition to and in competition with the systems already in existence or in provinces where the need has not been sufficient, in the opinion of the provincial authorities, so as to justify the establishment of such a system; and

Whereas it would seem to be wise, both from the point of view of efficiency and economy, if a federal system is to be established, that it be a common system for the whole of Canada, and that, of necessity, would entail conferences between the federal and provincial authorities;

Therefore, your Committee recommend that the investigation of the subject be continued, in order to determine whether it is possible to co-ordinate the various systems of rural credit now in existence into a Federal System, applicable to the whole of Canada, and that Legislation be prepared based on the said further investigations and calculated to meet the credit needs of the Agricultural classes of the Dominion, and submitted to Parliament at its next Session. (Presented to House, Wednesday, July 9, 1924. See page 507, Votes and Proceedings. Concurrence moved, concurred in, Friday, July 18, 1924. See page 648, Votes and Proceedings.)

The Committee adjourned at 1.25 o'clock p.m., to meet at 11 o'clock a.m., Wednesday, July 9, 1924.

S. R. GORDON,

*Clerk of Committee.*

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

WEDNESDAY, July 9, 1924.

The Committee met at 11 o'clock a.m.

The Chairman, Mr. Vien, presiding.

*Present:*—Messrs. Benoit, Carmichael, Casgrain, Chevrier, Clark, Clifford, Coote, d'Anjou, Desaulniers, Descoteaux, Duncan, Elliott (Dundas), Elliott (Waterloo), Fortier, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Healy, Hodgins, Hughes, Irvine, Jacobs, Kellner, Ladner, McBride, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, McMaster, McTaggart, Malcolm, Marler, Maybee, Mewburn, Millar, Morin, Papineau, Power, Rankin, Robb, Robitaille, St. Père, Sales, Sinclair (Oxford), Sinclair (Queens, P.E.I.), Spencer, Steedsman, Stevens, Tobin, Vien, Woods.—58.

## APPENDIX No. 1

"Motions on the Order Paper" having been called.

No. 5, Mr. Coote moved:

"That in the opinion of this Committee, legislation should be brought down this session to provide for the establishment of long-term rural credits."

Discussion followed.

The question being put it was negatived on division: Yeas 4; Nays 19.

Mr. Spencer raised the question as to the probable date of the Home Bank Debate in the House.

The Chairman informed the Committee that this Debate could not possibly be reached before Tuesday or Wednesday of next week.

No. 12, Mr. Coote moved:

"That Section 61, Subsection 3-A, be struck out and the following substituted therefor: '50 per cent of the amount of the unimpaired paid-up capital of the bank, and'."

Discussion followed.

By consent, the motion was withdrawn.

No. 13, Mr. Coote moved:

"That this Committee is of the opinion that the Bank Act should be amended to provide that the printing and issuing of bank notes should be under the control of the Department of Finance, and that regulations covering the printing and issuing of said notes should be in the hands of the Department of Finance instead of the Bankers' Association."

Discussion followed.

The Committee was addressed by Mr. H. T. Ross, Secretary, Canadian Bankers' Association, who also answered a number of questions as to the effect of this motion, if passed.

The question being put, it was negatived on division: Yeas, 10; Nays, 29.

No. 18, Mr. Garland moved:

"That Section 76 of the Bank Act be amended by adding thereto Subsection (g) to Subsection 2 of said section, as follows:—

"No bank shall accept deposits payable after notice to a total amount in excess of six times the paid-up capital of the bank provided this clause shall become operative October 1, 1925."

Discussion followed.

The question being put it was negatived on division: Yeas, 4; Nays, 34.

No. 19, Mr. Coote moved:

"That Section 13 of the Bank Act be amended by striking out the words 'five hundred' in the first line thereof; and substituting therefor the word 'fifty.' And by striking out the words 'two hundred and fifty' in the eighth line thereof and substituting the words therefor 'twenty-five.'"

Discussion followed.

The question being put it was negatived on division: Yeas, 11; Nays, 29.



No. 20—Mr. Coote moved:

"That Section 10 of the Bank Act be amended by striking out the words 'five hundred thousand' in the second line thereof and substituting therefor the words 'fifty thousand.'"

By Consent this Motion was withdrawn.

No. 21—Mr. Spencer moved:

"That the following words be added to Subsection 6, Section 54:—

'The profit and loss account shall include and show on the one part the amount of

'(a) Balance of profit and loss account carried forward from previous year;

'(b) Rebate of interest on unmatured bills as at close of previous year;

'(c) Gross profits, including balances of all interest, commission, exchange and other revenue-producing accounts;

'(d) Premium on new stock sold;

'(e) Bad debts recovered, previously written off, and the statement shall include and show on the other part:

'(a) Expenses of management and operation to be itemized;

'(b) Interest paid on deposits;

'(c) Interest reserved on unmatured bills;

'(d) Amount written off bank premises;

'(e) Amount transferred to appropriation account for losses;

'(f) Amount transferred to officers pension fund;

'(g) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail;

'(h) Dividends declared (specifying number and date);

'(i) Amount transferred to rest account;

'(j) Balance at credit of profit and loss account.'"

Discussion followed.

The question being put it was negatived on division: Yeas, 12; Nays, 23.

On Motion of Mr. Irvine the Committee adjourned at 12.40 o'clock p.m., to meet at 11 o'clock a.m., to-morrow, Thursday, July 10, 1924.

S. R. GORDON,

*Clerk of Committee.*

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

THURSDAY, July 10, 1924.

The Committee met at 11 o'clock, a.m. The Chairman, Mr. Vien, presided.

*Present:* Messieurs: Benoit, Bird, Carmichael, Carruthers, Casgrain, Chevrier, Coote, Desaulniers, Descoteaux, Fortier, Garland (Bow River), Good, Hatfield, Healy, Hodgins, Hughes, Laflamme, McBride, McKay, McMaster, Marler, Morin, Power, Rankin, Rhéaume, Robichaud, St. Père, Shaw, Sinclair (Oxford), Steedsman, Stevens, Vien, Ward, Woods, Woodsworth.—35.

## APPENDIX No. 1

After consideration of a Private Bill on the Order Paper—

On motion of Mr. McKay, seconded by Mr. Morin,

*Ordered*,—"That the Tory Report on Agricultural Credit be printed as an appendix to the Minutes of Proceedings of this Committee."

(See page xli.)

On motion of Mr. McKay, seconded by Mr. Hatfield,

*Ordered*,—That the Chairman be instructed to present the following as the Sixteenth Report of this Committee.

"Your Committee have had under consideration the various matters referred to them by the Order of Reference, and have reported on same from time to time.

Your Committee, in addition to numerous meetings of the sub-committees, have held thirty-nine sittings on twenty-seven separate days, have heard the evidence of ten witnesses, and have had twenty-three exhibits filed with them.

Your Committee submit herewith for the information of the House a printed copy of their proceedings, the evidence given before the Committee, and also certain documents submitted to the Committee as Exhibits but not contained within the proceedings.

Your Committee recommend that the Order of Reference, Reports, Proceedings, and the Evidence given before the Committee, together with a suitable index to be prepared by the Clerk of the Committee, be printed as an appendix to the Journals of the House of the present Session, and for distribution, and that Rule 74 be suspended with reference thereto." (Presented to House, Thursday, July 10, 1924. See page 517, Votes and Proceedings. Concurrence moved, concurred in, Friday, July 11, 1924. See page 542, Votes and Proceedings.)

On motion of Mr. Benoit the Committee adjourned, to meet at the Call of the Chair.

S. R. GORDON,  
*Clerk of Committee.*

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

FRIDAY, July 11, 1924.

The Committee met at 11 o'clock, a.m. The Chairman, Mr. Vien, presided.

*Present*: Messieurs: Benoit, Chevrier, Clifford, Coote, Descoteaux, Elliott (Waterloo), Fortier, Garland (Bow River), Good, Hatfield, Hodgins, Irvine, Jacobs, McBride, Maclean (York), McKay, McMaster, Millar, Morin, Sales, Shaw, Spencer, Steedsman, Vien, Ward, Woods, Woodsworth.—27.

Mr. McKay, Chairman of the sub-committee on "Rural Credits," moved that the Report of the sub-committee on "Bankruptcy," be adopted.

Discussion followed.

On motion of Mr. McKay seconded by Mr. McMaster, the Chairman was unanimously instructed to present a Report to the House embodying the Report of the sub-committee on "Bankruptcy," as amended, as follows:—

*Seventeenth Report*

"Your Committee have had under further consideration and study the report of Dr. H. M. Tory on 'Agricultural Credit,' which was referred to them on May 6th, 1924."

"Your Committee find that the credit of persons engaged solely in farming the tillage of the soil is affected by certain provisions of The Bankruptcy Act."

"Your Committee, therefore, recommend that legislation be introduced at the present Session of Parliament amending The Bankruptcy Act as follows:—

"An Act to Amend The Bankruptcy Act."

"1. This Act may be cited as 'The Bankruptcy Act Amendment Act, 1924.'"

"2. The Bankruptcy Act is amended by inserting after section 8B thereof the following section:—

"8C (1) Notwithstanding anything contained in this Act, if the Lieutenant-Governor in Council of any province has authorized any officer of the provincial government, charged under a provincial statute with duties which in the opinion of the Lieutenant-Governor in Council are analogous in any respect to the duties of custodian and trustee, to act as custodian and trustee under this Act, the Official Receiver shall in the case of an assignment by a person engaged solely in farming or the tillage of the soil appoint such officer as custodian."

"(2) Any officer so appointed to the office of custodian by the Official Receiver shall thereupon in addition to such office be and be deemed to be the authorized trustee as if appointed under subsection (1) of section 15 of this Act, and shall continue to be the authorized trustee until properly removed under subsection (2) of the said section 15."

"(3) In case any such provincial officer is appointed custodian and trustee, he shall not be entitled to be paid any remuneration as custodian or trustee nor any of the costs enumerated as costs of custodian in Part III of the General Rules, but shall be entitled to his lawful disbursements.

"3. Section 59 of The Bankruptcy Act is hereby amended by adding thereto the following subsection:"

"(2) Paragraphs "b" and "c" of the preceding subsection shall not apply in the case of an application for discharge by any assignor who at the time of the authorized assignment was engaged solely in farming or the tillage of the soil." (Presented to House, Friday, July 11, 1924. See page 523, Votes and Proceedings.)

This being the last scheduled meeting of the Committee felicitations were exchanged before the Chair, and the various members of the Committee.

The Committee adjourned at one o'clock p.m., *sine die*.

S. R. GORDON,  
Clerk of Committee.



## MINUTES OF EVIDENCE

HOUSE OF COMMONS,  
COMMITTEE ROOM 436,  
THURSDAY, May 13, 1924.

The Select Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. Mr. Vien presiding.

The SECRETARY: The Chairman of the Committee Hon. Mr. Mitchell, is unable to be present this morning and I would ask the members of the Committee to nominate a vice-chairman.

Mr. TOBIN: I propose that Mr. Vien, Lotbiniere, take the Chair.

Mr. Vien having taken the Chair.

The VICE-CHAIRMAN: The first order of business is "Communications." I would ask the Secretary to read the communications.

The SECRETARY: The following telegram has been received.

"Cleveland, Ohio,

Hon. W. C. Good,

"Your telegram was repeated to me from New York. I shall be glad to appear before your Committee if they want me and shall try to arrange my time to suit their convenience. I can be reached by telegraph until Monday, May Twelfth at Hotel Cleveland, Cleveland Ohio. After that date I suggest you telegraph me care American Exchange National Bank, New York City, and message will be repeated to me as my movements for next month are uncertain.

(Sgd.) William P. Malburn."

There has also been received the following telegram:

"Washington, D.C.,

Hon. W. G. Mitchell.

"Chairman House of Commons, Banking Committee.

Replying your telegram seventh would suggest E. W. Stearns comptroller's office, Sherrill Smith, Vice President Chase National Bank, New York, or J. W. Pole, Chief National Bank examiner under comptroller of the Currency.

(Sgd.) A. W. Mellon."

That is a reply to a telegram which Mr. Mitchell sent asking for suggested names of witnesses in regard to the matter of bank examination or inspection. Perhaps Mr. Good has received other telegrams.

Mr. GOOD: Yes, Mr. Chairman, I received replies from practically all the other parties to whom I sent telegrams on instructions of the sub-committee. I thought that the secretary would read them also. I read one at the last meeting of the Committee from Mr. Williams, who signified his willingness to come. I also heard from Mr. Maclean, of Portland, whose name was mentioned, but he replies that he will find it difficult, if not impossible to be present. The other party was Mr. Stearns. He wired that he would be available. There was only one other party suggested and we do not know his address. I do not think that the secretary has heard from him yet.

The SECRETARY: We have not yet had that reply.

Mr. GOOD: I think that is all the information I can give the Committee at present. I have copies of the replies in my room, and I can get them if necessary.

The VICE-CHAIRMAN: You might hand them to the secretary.

Mr. GOOD: I thought he had copies, but if not, I will furnish them to him.

The VICE-CHAIRMAN: The second order of business is "Report of the Sub-Committee." I understand that the Sub-Committee has not met since our last meeting.

The next order is "Motions." There are a few formal motions for the consideration of the Committee.

Mr. Shaw moved, seconded by Mr. Irvine that

"The Clerk be instructed to secure a sufficient number of copies of the Bank Act for the use of the members of the Committee."

Motion agreed to.

Mr. Coote moved, seconded by Mr. Spencer,

"That a Report be presented to the House recommending that the Committee be given leave to have their proceedings and such evidence as may be given before them, printed from day to day for the use of the members of the Committee and the House, and that Rule 74 be suspended in reference thereto."

Motion agreed to.

The VICE-CHAIRMAN: At the last meeting of the Committee the question of procedure was taken up, and I think the general trend of opinion was along the lines of the following motion, which I now submit for your consideration.

Mr. Mackinnon moved, seconded by Mr. McBride,

"That the following shall be the mode of procedure for this Committee:—

1. All motions and notices of motions must be in writing.
2. Amendments to the Bank Act introduced in Committee by members may be received as notices of motion to be discussed and not voted upon until a subsequent meeting of the Committee. Members of the Committee shall be furnished with copies of such amendments.
3. Non-contentious amendments to the Bank Act may be first disposed of. Any amendment or clause to which there is objection stands on the request of a Member for further consideration. Reconsideration shall be permissible on notice of motion."

Motion agreed to.

The next order is "Notices of motion." At the last meeting of the Committee it was resolved that to-day we would hear Mr. Edwards of the Finance Department, Mr. Finlayson of the Insurance Department and Sir William Stavert. I have been informed that Sir William Stavert is desirous of waiting until the next sitting of the Committee before giving his evidence; therefore, I would suggest that Sir William Stavert's evidence be heard at the next sitting of the Committee if that is agreeable.

Now, gentlemen, we have present Mr. Edwards of the Finance Department, and Mr. Finlayson of the Insurance Branch of the Finance Department. Whom do you desire to hear first?

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Mr. SHAW: Before the matter of calling the witnesses is proceeded with, I may point out that there is a notice of motion standing in my name. It appears on the back of the notice calling this meeting, and perhaps it would be advisable to dispose of that in order that we may proceed with other business, if that is agreeable to the Committee.

The VICE-CHAIRMAN: The notice of motion standing in Mr. Shaw's name is as follows:—

“That this Committee is of opinion that the purpose, organization and operation of some type of properly administered Central or Reserve Bank falls within the scope of the Reference, and that the Sub-Committee is hereby instructed to suggest to this Committee the names of competent witnesses to give evidence on this subject.”

The question is open for discussion.

Discussion followed.

The VICE-CHAIRMAN: Gentlemen, I am only the acting Chairman of the Committee and I think, so as not to interfere with the proceedings I will reserve my decision until we sit again, or the Chairman, if he is here, will render the decision. This is on the question of whether the purpose, organization and operation of some type of properly administered central or reserve bank falls within the scope of the reference.

Any other motions, gentlemen? I understand that Mr. Good is interested in the calling of the witnesses, and I would like him, or any other member of the Committee to say which witness should be examined first.

Mr. IRVINE: I would suggest that it would be wise to instruct the sub-committee to consider which of those witnesses to whom we have wired should be called.

Mr. GOOD: To facilitate matters I would move that the sub-committee be asked to suggest or recommend the names of suitable witnesses among those who have been communicated with at our next sitting.

Mr. IRVINE: I will second that.

Mr. GOOD: Unless the Committee thinks it desirable to call them immediately, it might be better to have the sub-committee to consider the matter and make a recommendation.

The VICE-CHAIRMAN: Your suggestion is that the names of the witnesses available be referred to the sub-committee so that they may choose the witnesses to be called.

Mr. GOOD: And make a recommendation in that direction.

Motion agreed to.

The VICE-CHAIRMAN: Who will be the first witness?

Mr. SHAW: I would suggest Mr. Finlayson.

The VICE-CHAIRMAN: Pending the arrival of Mr. Finlayson, we might hear Mr. Edwards, if it is agreeable to the Committee.

George E. EDWARDS: Chartered Accountant, Toronto, Ont., called.

Mr. GARLAND: Is Mr. Edwards prepared to make a brief statement in regard to bank inspection? That would perhaps open up the subject.

The VICE-CHAIRMAN: Mr. Edwards, of Toronto, of the firm of Edwards, Morgan & Company, Chartered Accountants, is your witness.

Mr. GOOD: May I ask at whose suggestion Mr. Edwards has been called here?

[Mr. George Edwards.]



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The VICE-CHAIRMAN: At the last sitting of the Committee, the sub-Committee was instructed to get in touch with the Finance Department and ask it to accede to the presence here of an official of the Department who would give evidence before the Committee concerning bank inspection. Mr. Edwards is the adviser of the Minister when called upon to give his advice in respect of banking and financial questions.

Mr. IRVINE: I understood that Mr. Edwards was to deal with the amendments to the Banking Act adopted last year, as to how they might be expected to protect depositors.

The VICE-CHAIRMAN: Exactly. Mr. Edwards has not prepared a statement, but he is willing to answer any questions that members would like to ask him.

Mr. SHAW: I would suggest that Mr. Edwards make his statement as to the operation of those amendments. He is familiar with them.

*By Mr. W. F. Maclean:*

Q. What do you know about the Home Bank, Mr. Edwards?

The VICE-CHAIRMAN: I think we will make more rapid progress if Mr. Edwards gives his statement as to the effect of the amendments to the Bank Act.

Mr. LADNER: Perhaps Mr. Edwards might tell us what he knows to be the effect of Section 88(a) as to notice of intention to give security, and what effect it has had.

The VICE-CHAIRMAN: I would suggest that the witness make a general statement and then answer any questions that suggest themselves.

WITNESS: Mr. Chairman, speaking generally with reference to the new features of the Bank Act, which came into effect last year, I would like to say that those provisions are generally effective at the present time, with two or three exceptions. I will touch upon the chief amendments which, I think, were intended to serve any purpose, or such as, I understand, this Committee has under consideration at the moment, that is the protection of depositors or shareholders. The first important amendment introduced into the Act last session was Section 18 regarding the pension funds. I am unable to say whether the banks have yet completely complied with the requirements of that section, which was intended to secure to the employees of the banks the investment of their pension funds in trustee securities. Some time was to be allowed to the banks to make the conversion, but the time was, I think, to be in the discretion of the Minister. I have no doubt, however, that the matter is receiving, if it has not already completely received, the attention called for.

The next important Section is Section 54.

*By Mr. McMaster:*

Q. Before you pass from that pension fund provision what were these investments in before?—A. The Merchants Bank case showed that the officers of the Bank had invested the pension funds in shares of their own bank, and therefore, should the necessity for enforcing the double liability arise the bank would lose. In the case of the Merchants Bank, it meant that their funds had been invested in shares of the Merchants Bank at around 160, and by the terms of sale to the Bank of Montreal, they realized about 110 only. Therefore, those entitled to the pension, I believe, would ultimately receive only about 72 per cent of the pension that was originally intended.

*By Mr. Ladner:*

Q. Was there any such fund in the Home Bank?—A. There was no pension fund in the Home Bank.

[Mr. George Edwards.]

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*By Mr. Shaw:*

Q. Suppose that the Merchants Bank had become insolvent, what about the double liability on those shares? What would have been the situation?—A. That is, of course, what suggested the amendment, the fact that those people, the employees of the Bank, had nothing really to say in the management of the funds that they had contributed to, in part at all events, and that the fund would be invested without any voice of their own. It was that which suggested the amendment last session.

*By Mr. W. F. Maclean:*

Q. Is the amendment being complied with?—A. As I have said, I am not absolutely aware whether it is being completely complied with, because a certain time was allowed to the banks for the purpose of converting those securities. If Mr. Ross knows, he might inform the Committee, but I have not the knowledge myself.

*By Mr. McMaster:*

Q. It provides for investment in the different provinces?—A. They are set out in the Trust Companies Act of the Dominion of Canada under which the insurance department supervises the investments of life insurance companies and other bodies; and the nature of those securities is regulated by that Act. The amendment was taken from that Act.

*By Mr. Coote:*

Q. May I ask you a question with regard to the pension fund? I understand that it is a fact that in some of our banks the employees are compelled to pay into the pension fund a certain percentage of their salaries, and if they leave the bank, or are discharged from the bank within a certain number of years, they get absolutely no return from the pension fund. Do you know whether that is a fact, and if so, is it not working injuriously to the employees of the banks?—A. I do not know that to be a fact, but I do know of a case where an employee had been dismissed and has received back the money he paid in to the pension fund. But whether that is a universal practice or not I do not know. I think that every one who contributes to the pension fund out of his salary receives consideration in the event of severing his connections with the bank; just what it is, I cannot tell you.

Q. I think that if the Committee went into this question, it would find that, according to the by-laws of our banks, employees are not entitled, if they leave the bank or are discharged, to the money they have been compelled to pay into the pension fund. This may be an opportune time to mention this fact.

*By Mr. Irvine:*

Q. Would you say that this amendment to the section dealing with the pension fund materially protects the depositors?—A. No, but it protects the bank employees.

MR. SALES: Could Mr. Ross give us any information on that subject?

THE VICE-CHAIRMAN: I wish to draw the attention of the witness to the point we are now investigating. The reference is in respect to the safety of depositors. You will see that the answer given to Mr. Irvine does not affect the security of the depositors. Therefore, I do not think we should insist very much on that point.

SOME hon. MEMBERS: Hear, hear!

[Mr. George Edwards.]



*By Mr. Healy:*

Q. Before you leave this amendment, you mentioned that the shares in which the fund was invested would be affected by the double liability clause. Would it be fair to say that all moneys invested in the shares of a bank out of this pension fund would be lost, that the double liability would be lost entirely and would be of no benefit to anyone?—A. It might not be entirely lost if the other investments were sufficient in whole or in part to meet the double liability call.

Q. That is not just my point. A certain amount of money was invested in the shares of banks out of this fund. In the case of a bank failing, would the double liability clause lose all its benefit to anyone, in so far as the money invested in those shares is concerned?—A. If the pension fund had no other resources, the bank would lose undoubtedly; the depositors would lose the benefit of the double liability, but I would like to be sure as to what your question is.

Hon. Mr. STEVENS: May I be permitted to interject that that type of investment is no longer permitted.

WITNESS: It is not now.

Hon. Mr. STEVENS: It is ancient history.

Mr. HEALY: Pardon me, it is a live issue. The whole point of double liability is coming up. My point is, where a bank is about to fail, those who have knowledge of the inside workings of the bank can transfer their shares, getting rid of the double liability—transferring their shares to the owners who have no financial responsibility. Therefore, the double liability as regards bank shares becomes useless. The point I am making is that a bank which invests this fund or other funds in their own shares at once gets rid of the double liability as an asset. It is written off entirely.

WITNESS: I understand your question. The pension fund is not the bank; it is a separate fund. It is a trust. If the pension fund were the bank itself, I think your view would be the correct one, and the benefit of the double liability would be lost entirely. But these pension funds are not the funds of the bank. They are shown in the bank statement as money on deposit to the extent that they have it on deposit; but apart from that, they are separate investments which are not disclosed in the banks' affairs at all. Therefore, the pension fund is a shareholder in the bank in the same sense as you or I might be a shareholder in a bank.

An Hon. MEMBER: It is illegal to do it any more, so what is the use of talking about it?

The VICE-CHAIRMAN: I would suggest that the witness discuss the amendments to the Bank Act adopted last year in respect to deposit and safety of depositors, in so far as they affect the safety of depositors.

Mr. McMASTER: Of course, the whole administration of banks affects the safety of depositors.

Mr. BAXTER: It would be a nice thing if we could hear the statement of the witness as he sees it and have questions mercifully withheld until he is through.

WITNESS: Section 54 is the one which prescribes the form of statements presented to the shareholders and the public. There were amendments last year to that section which made it clearer. Just what the various classifications would include, and to the extent that these afford additional information, they are, I should say, a moral check upon the bank in the classification and arrangement of their annual statements. I would not like to say to what extent they would contribute to the safety of depositors, other than that they furnish infor-

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mation and place the public in possession of information which it ought to have. There is an important subsection in Section 54 relating to the manner in which the bank shows the operations which it carries in the name of a controlled corporation. This is subsection 4. It reads:—

“Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank’s interest in the corporation; and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed auditors of such controlled corporation, and the shareholders of the bank at every annual general meeting shall appoint such person to act as proxy for the bank at any and all meetings of such controlled corporation as they may see fit.”

The banks are now submitting all statements of their controlled corporations to their shareholders, and publishing them along with their own annual statements. To that extent, there is a great deal of valuable information being furnished which the shareholders may use in their own protection, and which affects the depositors only in that way. If the shareholders protect themselves, they of course protect the depositors.

The next important section in Section 56 which provides a shareholders’ audit. That Section was almost entirely reconstructed in the revision last session, and it is operative, excepting perhaps one of the sub-sections. That Section, in my judgment, enlarges and defines the duties of auditors in such a way that they cannot possibly plead any excuse for neglect to understand the full and true position of a bank. They have in the end to certify in this way:

“(a) whether or not they have obtained all the information and explanations they have required;

“(b) whether, in their opinion, the transactions of the bank which have come under their notice have been within the powers of the bank;

“(c) whether, in their opinion, the statement referred to in the report discloses the true condition of the bank;

“(d) whether the statement is as shown by the books of the bank.”

The important difference in that certificate is that the auditor states his own unreserved opinion as to the condition of the bank which he did not do under the Act as it previously stood. It is a clause which will suggest to every auditor a very keen sense of responsibility for what he states in his certificate.

Sub-section 10 is a clause which is a very great advance upon the previous Act, inasmuch as it obligates the auditors to follow the course of business from time to time throughout the year. The previous audit clause permitted an auditor to attend twice a year for certain purposes, and if he satisfied himself once a year under the terms of the Act as it then stood, he had performed his duty; but under the present Act, an auditor has not performed his duty when he goes that far; he must go further, and must examine the credits and the securities and report to the directors from time to time. Each auditor is responsible for doing that, and each auditor is responsible for informing each of the directors in writing in the way prescribed by the Act as to the condition of those credits and anything respecting them with which he is not fully satisfied. I believe that that is a clause which will keep the auditors on the alert, and will be a very important provision in the interests of depositors.

*By Mr. Hanson:*

Q. As far as you know, how far is it effective?—A. I believe it is effective. I have spoken to several bank auditors and I have been consulted by bank

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auditors as to the extent of their responsibilities under that Section; and I believe that they have the keenest sense of responsibility in reference to their duties as auditors of a bank.

*By Mr Woodsworth:*

Q. In your judgment, if these sections had been in effect, would it have been possible to have had the failure of the Home Bank?—A. The Home Bank could not have gone on for many of the later years if this Section had been in force.

*By Mr. Ladner:*

Q. Could the Home Bank have started?—A. Yes, the Home Bank was a perfectly sound institution at its inception. Its assets were in very good shape.

Q. Up to what period of time?—A. I think for two or three years after it started its business.

*By Mr. Woodsworth:*

Q. Under these regulations, how soon would irregularities or weaknesses have been discovered?—A. I should say that the weaknesses could have been discovered within a few months after they had developed in the management of the bank. They might not have impressed the auditor at that early stage with the seriousness of them, or what they might possibly develop into; but to any thoughtful man who saw what occurred in the early history of the Home Bank, I think it would be inconceivable that under these audit clauses as they stand to-day, the matter could have gone unreported.

*By Hon. Mr. Stevens:*

Q. In other words, it would not have developed?—A. It would not have been allowed to develop. The logical consequence of an auditor knowing the circumstances would be a house-cleaning.

*By Mr. Woodsworth:*

Q. Do you think that this gets behind a mere book audit?—A. Absolutely.

*By Mr. McQuarrie:*

Q. Would you suggest any further safeguards?—A. I will give you my views upon that. I will call attention to subsection 9 of Section 56, which reads this way:—

“The Minister may from time to time require that the auditors of a bank shall report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors, and shareholders, and as to the sufficiency of their own procedure in auditing the affairs of the bank; and the Minister may at his discretion enlarge or extend the scope of the audit, or direct that any other or particular examination be made or procedure established in the particular case as the public interest may seem to require.

My general observation about that subsection is that it is very broad, and under it the power of the Minister to require of the auditors the information which he desires is not limited at all. It may go into the very depth of the banking procedure, the way the directorate function, the way the inspection department functions, and the way the accounts are brought in and co-ordinated. In fact, there is nothing in that subsection which is outside of the scope of action by the Minister in the manner provided by the subsection itself.

[Mr. George Edwards.]



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*By Mr. Shaw:*

Q. Is that a new subsection?—A. Yes.

Mr. WOODSWORTH: Under the preceding regulations the Minister had considerable power. Has the public any guarantee that the power of the Minister will be exercised, and that the audits will be more careful than those in the past?

*By Mr. McQuarrie:*

Q. Do I understand that you will answer the question which I asked, later on? You started to answer my question as to whether you would suggest any further safeguards, and you referred to subsection 9, which we already have.—A. To answer your question, sir,—and I was leading up to it—I would say that the further suggestion would be that action is possible by the Minister and could be made effective at the discretion of the Minister. It would be quite a possible thing for the Department of Finance, through the Minister, to obtain any information he desired, or to impose upon the bank any additional condition as to procedure which would tend to increase the security of the depositors of the bank.

*By Mr. McQuarrie:*

Q. We already have that. My question was whether anything should be added in this section which might be more satisfactory. For instance, I was thinking about Government inspection, whether this private inspection or audit is satisfactory, or whether it would be better to have a complete system of Government inspection.—A. Well, Government inspection, I think, would not be an improvement upon the present internal system of inspection of the banks, if the result of that internal inspection is co-ordinated and made available to the Minister, so that he may take proper action thereon in an emergency.

*By Mr. Irvine:*

Q. In view of the fact that this clause under discussion is left entirely to the discretion of the Minister, would you suggest that it would be better to have some additional protection to the depositors. Of course I am only speaking of possibilities, and this does not apply to the history of Canada so far, but the Labour Party may come into power and we might have a Minister without any discretion. In view of that possibility as to the protection of depositors, at the discretion of a discretionless Minister, what do you suggest?—A. That is the way the Act stands at the present time.

*By Mr. Maclean:*

Q. Have they Government inspection in the United States?—A. They have.

Q. How soon does it function or have they such inspection all the time?—A. In the United States the National Banks are inspected twice a year by the officers of the comptrollers of the currency. So far as I know, there is no internal inspection because there are practically no branches amongst the National Banks, and therefore, the executive has immediate oversight of everything they require to know.

Q. I notice in the United States that when banks are in trouble the Government inspector is in there the next day?—A. I don't know about that. I think perhaps it is the attendance of the Government inspector which brings the trouble.

Mr. MACLEAN: But he goes into possession the next day.

[Mr. George Edwards.]



*By Mr. Ladner:*

Q. On that question of inspection and responsibility; do you not think that a certain kind of inspection of the larger accounts at the Head Office with a direct responsibility to the Government would be effective in the manner that the present system is not effective?—A. An inspection system, in my opinion, is merely an inspection of certain accounts. It would be the inspection generally of all the accounts, or at least information which would be satisfactory as to all the accounts, and then the resolving of all the information into a statement, which would test, by its results, the solvency or otherwise of the bank, or the position of the bank.

Q. But that is perfection. Take a practical situation such as we have. Is it not a fact that the inspection of the large accounts at the Head Office, especially with respect to their value and security, would have avoided bank failures and difficulties which have actually occurred? That is, inspection by the Government and responsibility to some other than the bank or interested parties?—A. Surely, but inspection of the Head Office will disclose nearly all the trouble, and, therefore, an inspection of the securities at Head Office would be an effective step.

Q. Well, Mr. Edwards, you have a lot of experience on these banking questions, and we had the benefit of your advice last year, and this is a very important question to the country. I am asking you, as an expert, for your opinion—whether or not you do not think it would be advisable to have a system of Government inspection of the larger accounts at the Head Office put into force immediately, and if we can advance or improve upon that system, we can do it later on.

Mr. MACLEAN: That is the point.

The WITNESS: My views last session—

*By Mr. Ladner:*

Q. What is your opinion now, in view of your experience last session and the failure of the Home Bank?

Mr. MACLEAN: In view of the present situation.

The WITNESS: The inspection of large accounts by Government inspectors would, I think, be very useful.

Mr. MACLEAN: That is the point.

*By Mr. Ladner:*

Q. Would you, as an expert accountant on banking, advise the Government to institute such a system at the present time, at this session of Parliament?—A. I do not think I would advise them to institute that system at the present time until the efficacy of the sections provided in the present Act have been thoroughly tested out.

Mr. MACLEAN: And a horrible example occurring in the meantime.

*By Mr. Ladner:*

Q. Then, as I understand it, you think a system of inspection which is responsible to the management of the bank is as effective as a system of inspection which has its responsibility to the Government, and in that way to the public?—A. If the nature of the inspection is known to the Government.

*By Mr. Ward:*

What do you mean by "Government"?—A. The Minister, in this case. I should have said the Minister. If the Minister, in the exercise of his discretion, will inform himself as he has the right to do, as to the character of the inspection carried on—

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*Br. Mr. Ladner:*

Q. What opportunity has the Minister to inform himself excepting through his officials?—A. He may require the auditors of banks individually and collectively to report to him.

Q. Would it not be far more effective, instead of having that uncertain discretionary power to be exercised, often when the horse is gone, to have a certain responsibility which would automatically work year in and year out? As an expert, is it not better for you to create safeguards in the most effective manner?—A. If imposed upon the present internal inspection system of banks that information be furnished by the management to the auditors, and through the auditors to the Minister, if this system is added, I would say yes, but to take its place, I would say no.

Mr. MACLEAN: Why not say "The Government may at certain times do so and so"?

*By Mr. Ladner:*

Q. It seems to me the most useful way to get results is to pursue your point to the end and arrive at a definite conclusion. The conclusion I want is this. Is it in the interest of the banks and the public at the present time, in view of what has happened, that we should create a Government system of inspection of the larger accounts at Head Office, making a direct responsibility from the bank to the Government instead of from the bank to its own management, even though there is, in that last system, a discretionary power for the Minister, under the present Act?—A. I think there should be some form of inspection or means of obtaining information which would give the Minister a better knowledge as to the position of the larger accounts.

Q. Would you make that a system that would work automatically, that would be imperative or mandatory under the Act, or would you make it discretionary?—A. Well, I think it should be done, but my opinion has been that it could be done under the Act as it stands.

Mr. MACLEAN: It must be done; that is the point.

Mr. LADNER: My point is this: would not it be better to have a provision which would say "This inspection shall take place at periodical intervals", so that the Minister would not have any discretion at all.

Mr. MACLEAN: And save a responsibility he does not like to assume.

*By Mr. McQuarrie:*

Q. Does this sub-section depend upon the Minister who happens to be there and upon the manner in which he exercises his discretion? The question I asked you in the first place was whether you had anything to suggest. I wanted to ascertain if you are satisfied with the law that the House passed last year? Of course as a member of this Committee I can say that I did not have full information as to the banking conditions in this country, and I have a different aspect this year after the Home Bank inquiry, and certain incidents which have happened. I feel that a great deal of information was deliberately concealed last year from this Committee, and the reason I asked you this question was because I assume you have a lot of information which you did not have last year. Now, in view of the developments which have taken place, don't you think something can be done to improve conditions, and if so, what do you suggest?—A. I think the powers contemplated by subsection 9 should be put in more definite shape.

[Mr. George Edwards.]



*By Mr. Hanson:*

Q. What do you mean by that?—A. I mean that to follow up the system of inspection which comes under the review of the auditors should, as the logical sequence, be made in some way compulsory—

Mr. MACLEAN: Government inspection.

The WITNESS: —a compulsory action by the Minister.

Mr. BAXTER: As a matter of fact, this subsection 56 does not provide, unless the Minister especially requires it, the transmission to him or the Department of any reports made by the auditors.

The WITNESS: It does not unless the Minister requests it.

*By Mr. Baxter:*

Q. How would you view it if the auditors were required to send a copy of their reports thus made not merely to the shareholders or directors, but to the Minister? He personally would not go over them, but someone in the Department would do that, and this is merely a danger signal.—A. You refer to the reports under the next following subsection?

Q. Under subsection 10 of section 56?—A. The annual report is sent to the Minister. That is necessary.

Q. But I have particularly in mind the information that might be gathered under subsection 10.—A. I agree with you.

Mr. MACLEAN: Should that not be by a straight Government inspector, who goes in and gets it and lets the public know?

Mr. BAXTER: How much more would he do than the people appointed by the shareholders, who have these duties under the Act?

Mr. MACLEAN: They have not done it in the past.

Mr. BAXTER: It was never their duty in the past, until the change in the law last year.

The WITNESS: The auditors have a very much larger sense of their responsibility now. They have certain definite duties prescribed. I would say in reply to Mr. Baxter's question that a copy of these reports sent to the directors should be sent to the Minister.

Mr. BAXTER: Whether sent to the directors or the shareholders a copy should be sent to the Minister.

Mr. MACLEAN: The Minister might not act. That is what the public want; they want an official who will go and find out the facts at an early time, and he says "Government inspection."

The VICE-CHAIRMAN: I would suggest that you put the question to the witness and that we listen to his answers.

*By Mr. Ladner:*

Q. May I conclude from your answer that you are of the opinion that a system of obligatory governmental inspection of the larger accounts at the Head Offices should be put into force?—A. It depends on what you mean by that, Mr. Ladner. I would say that the Minister should avail himself of all the means of obtaining information which he has now, the inauguration of an Inspection Department for the purpose of carrying out at first hand that idea. But I am afraid that it would involve a number of other difficulties.

Q. Then you are not in favour, or, as an expert, would not be in favour of advising the Government to put into force now a system of Government inspection of Head Office accounts, leaving aside the ideas of the Minister exercising discretionary power, but making it obligatory and imperative that a certain



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system of inspection should take place?—A. I would not be in favour, without further study of the subject and further knowledge gained by an examination of the situation, of advising that an independent system of governmental inspection should be put into force as regards the larger accounts.

Q. You have intimated that this question of bank accounting and bank inspection—you discussed it fully last year, and you apparently are well informed on the Home Bank, and you must have read a great many newspaper comments and criticisms; do you require more information than that to come to a conclusion?—A. I am thinking of the practical difficulties of an independent system of Government inspection, such as I understood your question to imply.

Q. Could you work out a system of Government inspection of Head Office accounts—of the larger accounts?—A. I think it might be done.

Q. Could you do it?—A. I think so.

Q. Would you favour doing it?—A. If you give me time, yes.

*By Mr. Maclean:*

Q. How much time?

*By Mr. Ladner:*

Q. Yes, how much time?—A. It is not a question I can settle in a moment, or a week or a month. It is a case of informing oneself as to the internal conditions of the banks, through the means available at the present time.

Q. Could it be worked out before the end of this session of Parliament—say at the end of June?—A. No, sir, it could not.

Mr. SHAW: I do not know whether you were going to ask him about the amendment you submitted last year, Mr. Woodsworth.

Mr. WOODSWORTH: Yes, I was.

Mr. SHAW: Then I will not discuss it.

*By Mr. Shaw:*

Q. Mr. Edwards, I notice that under Section 56a the Minister has discretionary power to require the bank auditor, or any other auditor, to make reports to him. That is true?—A. That is true.

Q. And that power was invoked by a former Finance Minister in connection with the Home Bank?—A. Yes.

Q. In that particular case, if I read the evidence correctly, none of the directors were fully informed as to the bank's condition?—A. In 1916 one of the reasons for calling the matter to the attention of the Finance Minister was the claim that certain directors had not the information.

Q. But they subsequently acquired it?—A. They stated they were content with what they had.

Q. And the Minister called for information under the Section, and got a lot of information?—A. The Minister called for information as to three specific accounts.

Q. Yes, I remember that. Let us take this situation: supposing that the Minister exercised his discretion, as he did; supposing that the auditor of the bank furnished the full and truthful information, indicating, we will say for the sake of argument, that the bank was in a hopelessly insolvent condition; what will the Minister then do? Can you point out any section of the Bank Act which tells a Minister what to do?—A. No, I think the power is implied. It is not stated in the Bank Act, but every one, I think, recognizes that the Minister has very great power under such circumstances.

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Q. What is the implied power? I cannot find any expressed power. Could he close the bank?—A. The testimony before the Home Bank Commission was to the effect that the other banks could have been compelled to absorb that situation.

Q. But do you not mean to suggest that the Minister of Finance could go to the other banks and say, "You must take over this bank?"—A. That was not my statement; that statement was made.

Q. But that was the expressed opinion that he made that statement—

Mr. MACLEAN: The Minister held a conference with the other banks.

*By Mr. Shaw:*

Q. Is it not a fact that a conference was held in connection with the Bankers' Association and yet they would not take it over? As a matter of fact, there was no power of compulsion, so far as the Minister is concerned, to direct the other banks to take over an insolvent bank? There is no expressed power of the Minister to do anything, is there? He cannot close the bank?—A. No.

Q. The bank could not be closed unless it actually—? A. I want to answer your question correctly. I say there is no power given to him under the Act.

Q. Is there any power any place?—A. I believe that the Minister has the strength and moral power to accomplish a great many things that are not specified in the Act.

Q. Mr. Edwards, would you be in favour of a provision giving the Minister power to close a bank if, after full investigation, he finds it should not continue?—A. Yes, if after due investigation—

Q. You say this power he has under 56 and 56a is adequate for that purpose?—A. I think he should have the power.

Q. To save the bank and prevent further losses?—A. Yes.

Mr. SHAW: I fully agree with you.

Mr. MACLEAN: But that does not deal with the question of government inspection, Mr. Shaw. You are side-stepping that yourself.

Mr. SHAW: No, I am not.

*By Mr. Shaw:*

Q. You will recall an amendment which was suggested last year by Mr. Woodsworth providing for the appointment of a Government auditor who was to be permanently on the job; a permanent official whose function it would be to keep "tab," as it were, on these banks, having the power to call for further reports and go into these matters of audit properly, to direct audits, and do all the other things which were found necessary in that connection. In other words, it substituted for the discretionary powers of the Minister an obligation on the part of the Government officials. Are you or are you not in favour of such a provision?—A. With certain modifications of this amendment, I would say I am in favour of something of that kind.

Q. What are the modifications which you suggest?—A. The amendment provided among other things for placing these matters before Parliament at the opening of the session, but I do not personally think it would be in the public interest to spread before Parliament all the information the Minister might have obtained in the course of his inquiries through the Government auditors as to the affairs of the bank.

Q. Any other objection, Mr. Edwards, besides that?—A. I stated at the time that I believed it was premature. For this reason; that I hoped that the auditors appointed under the amended section would form an organization of their own for the purpose of supplying the Minister with the information suggested by that subsection, and that would be a useful and effective procedure. I have altered my

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opinion about that for the reason that the auditors do not all come into office at one time; they are changing, or were changing constantly, and it was practically impossible for them to get together in order to effect such an organization for the purpose of assisting the Minister, so I have changed my opinion as to that. I think, however, there should be some officer.

Q. Shall I suggest to you, Mr. Edwards, that the reservation you have made about making this report to Parliament, with the resolution by Mr. Woodsworth last year, would be a starting point which would meet with your approval?—A. I think it is good as a basis.

*By Mr. Maclean:*

Q. Have you an Auditor General in this country?—A. We have.

Q. Are his duties imperative?—A. They are defined by the Consolidated Revenue and Auditor Act.

Mr. MACLEAN: The real thing we want is an officer whose duties are imperative to check up the banks and do it continually. If there is anything wrong at the early stages they will be disclosed, and the wrongs may be righted and the bank may be saved and the public protected as well, but you will never have it unless you have a public official.

*By Mr. Hanson:*

Q. Is it your opinion that no further immediate change with respect to inspection should be made in the Act until time has demonstrated the efficacy or in efficiency of the amendments made last year, such as 56 and 56a?—A. And a further knowledge by the Minister in the exercise of the discretion given to him to discover just what the best possible system of bringing it about might be.

*By Mr. Ladner:*

Q. You think there should not be Government inspection at all until you have tried this discretionary scheme? That is not the answer you gave me before.—A. I hope I am not contradicting myself.

Q. We want to make it clear. You are an expert and we want your ideas about which you favour and how much delay there will be?—A. Well, I don't believe we can evolve anything in time for the present session of Parliament; until we ascertain what measure of inspection which will meet the circumstances.

Q. Can we do it before the next session?—A. You might have to reverse it later on at the next session.

Q. Could you devise a scheme, or could experts devise a scheme for the next session, say, next March?—A. Yes.

Q. Do you think that between now and the next session would be sufficient time to carry out the experiment and find the results to which Mr. Hanson has referred?—A. Yes, I think so.

Q. In one year?—A. Yes.

Q. Reference was made by the witness a minute ago—

Mr. WARD: Can this be done before we have another bank failure?

The VICE-PRESIDENT: It is now one o'clock. When shall we sit again? I may say that the Railway Committee is sitting to-morrow.

Mr. MACLEAN: Let us sit to-morrow.

Mr. GOOD: I think we ought to meet every day. There are a number here who could very properly question Mr. Edwards to-morrow, who do not have to attend the other Committee. I think we had better meet to-morrow morning.

Mr. HANSON: There is this objection, that there are gentlemen on this Committee anxious to attend who may have to attend the other committees. I do not think we should monopolize all the time. I suggest every other day is quite sufficient.



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Mr. McQUARRIE: It seems to me we should meet every day and go right at this business. It is our business to look after banking, and I suggest seriously we should get right down to business. We have wasted enough time already this session. Let us stay with it.

Mr. GARLAND: I think this Committee ought to obviate as far as possible holding sessions while the House is sitting. In order to do that it will be necessary to sit every morning. I think the same objection Mr. Hanson has just stated arose last year, but that did not prevent this Committee from sitting two or three times a day.

Mr. LADNER: I move we sit to-morrow morning at eleven o'clock.

Mr. COOTE: I second the motion.

(Motion agreed to.)

The Committee adjourned.

Room 231,

HOUSE OF COMMONS,

WEDNESDAY, May 14, 1924.

The Select Standing Committee on Banking and Commerce met at 11.00 o'clock a.m., Mr. Vien presiding.

The VICE-CHAIRMAN: Gentlemen, yesterday I submitted to the House of Commons the fourth report of the Committee on Banking and Commerce, which the House was pleased to approve and concur in. The report was as follows:

"Your Committee recommend that they be authorized to have their proceedings and such evidence as may be taken printed from day to day for the use of members of the Committee and of the House, and that rule 74 in relation thereto be suspended."

Under the rules of the Commission of Internal Economy, the number of copies that can be printed is limited to 500 copies. I think that that number would be more than sufficient for all concerned, for the members of the House of Commons and the members of the Senate. The proceedings of yesterday are, I understand, being printed, and will be distributed in the course of the day; and from now on, from day to day, we shall follow the course of last year. I may draw the attention of the Committee to this, however, that the order of the House is for the printing only of the proceedings and evidence; discussion is not supposed to be printed. If, in the course of our work, we find that on some points discussion should be printed, we will have to make a new application to the Speaker for leave to have it printed. Of course, everything is being taken down in shorthand, and can be printed if the Committee decide to ask the Speaker for the necessary permission.

Mr. GOOD: How are we going to discriminate between what is evidence and what is discussion? They are intermingled.

The VICE-CHAIRMAN: The examination of the witnesses and cross-examination is evidence, but if a discussion arises between two or more members of the Committee, that would be discussion and not evidence. The order permitting to print refers simply to the proceedings and evidence, to motions, notices of motion, the order of proceedings and the evidence of witnesses, but not to discussion between members of the Committee on matters that may arise.

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I have the third report of the Sub-committee which is as follows:

"Your sub-committee recommend that the following witnesses be called, viz:—

"Mr. John Skelton Williams, Richmond, Virginia, former Comptroller of the Currency at Washington, to be requested to give evidence on Tuesday, May 20th.

"Mr. J. W. Pole, Washington, D.C., Chief National Bank Examiner, to be requested to give evidence on Thursday, May 22nd.

"Messrs. E. W. Sterns, of the Comptroller's office Washington, D.C., and Sherill Smith, Vice-President Chase National Bank, New York, to be requested to give evidence on a later date to be decided upon.

"Your sub-committee have instructed the Clerk of the Committee to telegraph Messrs. Williams and Pole with the view of ascertaining whether or not the dates recommended will suit their convenience.

(Sgd.) FRANK CAHILL,  
*Chairman of the sub-committee."*

Shall the report of the sub-committee be adopted?

Motion seconded by Mr. McMaster and agreed to.

The VICE-CHAIRMAN: Motions.

Mr. GOOD: Will it be necessary to pass any special motion regarding the calling of those special witnesses?

The VICE-CHAIRMAN: Yes.

Mr. GOOD: Then I move that Mr. John Skelton Williams, Richmond, Virginia, former Comptroller of the Currency, be requested to give evidence before this Committee on Tuesday, May 20th, and that Mr. Williams be tendered the usual travelling and living expenses of a witness before Parliamentary Committees.

Mr. SHAW: I will second that.

Mr. McQUARRIE: Perhaps we might get some information as to who this gentleman is, and as to why he should be brought here. Personally, I do not know anything about it, I have never heard of him, and I would like to know.

The VICE-CHAIRMAN: Mr. Good, will you be good enough to explain?

Mr. GOOD: This matter was fully discussed before the sub-committee yesterday, and we had an outline of this man's qualifications. They seemed to be satisfactory to all the members of the sub-committee. I have not the information available just here, but I can get it.

Mr. McQUARRIE: Is this recommended by the Sub-committee?

Mr. GOOD: Certainly.

The VICE-CHAIRMAN: May I point out, though I would not like to insist on the point of order, that we have just unanimously adopted the report of the Sub-committee recommending that these gentlemen be called. Now, the question is past discussion. We have adopted that report. However, I do not wish to insist on the observance of the rule, if Mr. McQuarrie wishes to have information. As Mr. Good has stated, in the Sub-committee yesterday, we discussed the qualifications of Mr. Williams. Mr. Williams was Comptroller of Currency at the inception of the system of a Federal Reserve in 1913, and for the following eight years he has acted in that capacity.

Mr. McQUARRIE: I am satisfied if it is recommended by the Sub-committee. I am sorry that I was a little late in coming in, and I did not know that.

Motion agreed to.

Mr. IRVINE: I beg to move, seconded by Mr. Garland, that Mr. J. W. Pole, Washington, D.C., Chief National Bank Examiner, be requested to give evidence before this Committee on Thursday, May 22nd, and that Mr. Pole be tendered the usual travelling and living expenses of a witness before Parliamentary Committees.

Motion agreed to.

The VICE-CHAIRMAN: Yesterday, the question of whether we should sit while the House is in session arose. As a general rule, some members of the Committee object to sitting while the House is in session, and quite properly so; but we are now summoning witnesses from Washington and New York, and to my mind, it would be rather unfair to ask these gentlemen to come here from 11 to 1 o'clock, and then wait for a day or two before they complete their evidence. I think we should ask the House for leave to sit while the House is in session, and it will be at all times open to the Committee to decide when they shall sit or when they shall not sit. Therefore, I think it would be advisable if we want to make any progress and not detain these gentlemen too long, to obtain the permission from the House to sit and then we can exercise our discretion as to whether we should sit or not.

Mr. Irvine moved, seconded by Mr. Carruthers.

"That a report be presented to the House asking that the Committee be granted leave to sit while the House is in session."

Motion agreed to.

The VICE-CHAIRMAN: I stated yesterday that I would give my ruling this morning in respect to Mr. Shaw's motion which appears on the order paper as No. 1. I expect that Mr. Mitchell, the Chairman of the Committee will be here this afternoon, and I have decided to wait until tomorrow, so that he will give the decision himself.

Mr. W. F. MACLEAN: Shall we meet this afternoon?

The VICE-CHAIRMAN: No, tomorrow.

Mr. W. F. MACLEAN: I am agreeable to that.

The VICE-CHAIRMAN: I shall give my ruling on Mr. Shaw's motion tomorrow. We shall now continue to hear the evidence of Mr. Edwards on bank inspection.

Mr. W. F. MACLEAN: May I ask when the daily reports of the proceedings of this Committee will be distributed to members?

The VICE-CHAIRMAN: I informed the Committee before you came in that they are being printed, and that the first daily report will be distributed in the post office around 1 o'clock today.

Mr. W. F. MACLEAN: Will the printed report of the proceedings be available on the following day?

The VICE-CHAIRMAN: From day to day.

Mr. GEORGE EDWARDS recalled.

Mr. GARLAND: Perhaps it would be as well if each cross-examiner would continue his examination of the witness until he has concluded his points, and then another examiner could put his questions.

Mr. McQUARRIE: What does that mean?

The VICE-CHAIRMAN: We might perhaps adopt a system of cross-examination of the witnesses. The subjects covered by Mr. Edwards' evidence, are numerous, and it would probably be more intelligible if we first allowed him to make his statements on one definite point and then honourable gentlemen who wished to put questions to him on that point may cross-examine him,

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Mr. W. F. MACLEAN: And exhaust that subject before taking up another?

The VICE-CHAIRMAN: And exhaust that subject. Then Mr. Edwards can pass to another point, and the same procedure could take place. If the witness cannot give his statement of the subject matter to which he is addressing himself, it is pretty hard for him to give an intelligible statement. Yesterday, we heard Mr. Edwards on the question of pension funds of bank employees, and as soon as that is finished, we shall take up the question of bank inspection, the amendments to the Act in respect to Bank inspection.

Mr. W. F. MACLEAN: I think the Chairman will protect the rights of individual members.

The VICE-CHAIRMAN: Mr. Edwards was answering questions in respect to the pension funds of bank employees.

Mr. McMASTER: We passed that, Mr. Chairman, we got to inspection. We were asking Mr. Edwards as to the practicability and wisdom of having a Government audit.

*By Mr. Woodsworth:*

Q. I think mention was made yesterday of an amendment I moved last session. There are two or three points I would like to ask about that. My amendment last year contemplated the appointment of a Government auditor who would have the right to make inquiries and extend the scope of the audit, and under the Inquiries' Act summon witnesses, and so on. Does Mr. Edwards believe that an auditor of that kind, by calling upon the other auditors and by examination of the books at the head office of a bank would be able to have a sufficient knowledge to safeguard the interests of the public?—A. In most cases, yes. He might have to supplement his inquiries through the auditors with some personal examination, but in most cases it would be generally sufficient.

Q. It would not be necessary in your judgment to have a duplication of the work that is now done by the bank auditors?—A. I think it would be impracticable and unnecessary. I think that any system of inspection under Government control should take account of all the present existing means of furnishing masses of information, analyse and examine them for the purpose of arriving at a conclusion.

Q. My amendment last year was more in the nature of being supplementary.—A. It was of that nature.

Q. Then I think you criticized it in one regard, and that is that the last clause provided that the Government auditor shall annually make a report in writing to the Minister, or to whomsoever he may direct, and his findings and recommendations in respect thereto and such report shall be laid before Parliament within twenty-one days of the commencement of each session thereof. Yesterday you said you thought that would be undesirable and I would like to have that explained a little more fully?—A. I think it would be undesirable because a great many matters might be disclosed to the Minister in a way which might not be desirable to put before the public.

Q. Why not?—A. Well, the banks are very sensitive as to circumstances connected with their affairs and the public easily misunderstands, and it might be injurious to a bank, and work them a harm unfairly; it might not be fair to a bank to report upon all the details of an examination of its affairs to Parliament.

Q. Would you give some illustration of what matters might be injurious to a bank?

Mr. McMASTER: That would be injurious to have disclosed.

Mr. WOODSWORTH: Yes.

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The WITNESS: Why, many details respecting particular loans, larger more important loans. I think it would be very injurious to the credit of a solvent borrower if circumstances or special inquiry relating to loans came up before Parliament and was openly discussed.

*By Mr. Woodsworth:*

Q. Don't you think it would be highly desirable with regard to these large loans to the New Orleans Railway, for instance, and others of that kind, if they had come before the public?—A. Well, I, of course, think in the matter of loans of that character it would be in the public interest that some disclosure should be made generally, if not specifically, regarding them. but I am not thinking now of the banks that were in the condition in which the Home Bank proved to be. I was thinking of the perfectly solvent, sound bank, conducting its business to the best of its ability and having on its hands loans of a sort that might begin to cause some anxiety.

Q. But I suppose the idea of having a public audit is that the public should be able to check the standing of the bank?—A. I don't know quite what you mean by a "public audit."

Q. Well, a Government audit?—A. I would not say that a Government audit is necessarily a wide open public matter, but something to satisfy the Minister as to the condition of the bank.

Q. Then you think that the responsibility rests with the Minister?—A. He is the one who would take action upon the bank.

Q. Last year objection was raised to the passing of this amendment on the ground that the Government could not possibly accept this responsibility.—A. That, of course, was for the Government to say. I do not remember what Mr. Fielding's attitude was exactly at that time.

Q. As an expert in these matters, can you see how the Government can avoid responsibility?—A. If the "responsibility" means a guarantee of bank deposits, I think it would be an undue responsibility for a government to take. If it implied that there is a responsibility of a sort which a government might reasonably undertake, that is, the responsibility of knowing what the condition of the bank is and applying a remedy—a timely remedy—

Q. You have said, Mr. Edwards, that the public is unfit to judge; that it might be dangerous to have the public have the information. If the public cannot get at it, that necessarily narrows the responsibility to the Minister?—A. I think so.

Q. If his is the responsibility and the knowledge is denied to the general public, will we not have to hold the Minister and the Government responsible?—A. Responsibility I would say, for the applying of the remedy or taking an action which would, for instance, close up a bank if circumstances warrant it, but not the responsibility for a guarantee of deposits or assuming a financial responsibility.

Q. Then you would see no objection whatever to an amendment of this character from the standpoint of it giving a greater responsibility to the Government?—A. I am not the judge as to whether or not the Government would desire to assume a greater responsibility than that, but I think that is the extent to which the Government ought to go, the responsibility for knowing that the banks are carrying on their business in a proper way; that they would serve this purpose, that they were solvent, and a safe depository for the people's money.

Q. I really fail to understand how the Government or the Minister can have responsibility without it amounting in practice to more or less of a guarantee. Can you explain how he can assume responsibility for the public, denying the

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public the right to get at the figures and yet it not partake of the nature of a guarantee?—A. It all turns on what is meant by “responsibility.” Responsibility for appropriate action under circumstances that seem to call for it, I think, can be limited. I don’t think the word “responsibility” implies a wide open responsibility for everything that might follow upon a situation.

Q. If the Government denies to the public the right of access to the essential facts, ought it not to guarantee to give some corresponding guarantee to the public?—A. I don’t think that follows. You must trust your Government. You must trust somebody. The public cannot be the jury in all these cases.

Q. If we trust the Government, and the judgment of the Government or the Minister is faulty, then what?—A. I suppose judgment may be faulty, but if the Minister is properly advised—

Mr. MACLEAN: “If”.

The WITNESS: —and if he adopts every reasonable precaution to obtain information upon which he can rely, his judgment will in most cases not be faulty in matters of this sort.

*By Mr. Woodsworth:*

Q. We have to provide for contingencies. What about the public?—A. The public’s judgment may be faulty.

Q. But the public may lose, as in the case of the Home Bank?—A. Yes.

Q. What recourse has the public against the judgment of a Minister who may then be out of power?—A. That is rather a complex question for me to deal with; I think it is hardly one upon which my evidence might be worth very much.

Q. I think we might at least ask this question: What other guarantee would you suggest? We suggest as our guarantee a wide open publicity so that the public itself can judge, once a year.—A. Let me point out that Government inspection of national banks does not involve a guarantee of deposits.

*By Mr. McMaster:*

Q. Under the American system?—A. Under the American system.

*By Mr. Woodsworth:*

Q. That is quite true.—A. Yes, I would say it is possible for the Government to assume simply limited responsibility without being obliged to accept responsibility for the safety of deposits.

Q. Returning to that other question. Do you think the sensitiveness of the banks, which, of course, was clearly apparent last year—do you think that ought to be given a great deal of weight? Ought not the welfare of the public have greater weight?—A. I think every discretion should be used not to unwarrantably shake confidence in banks. The Minister should be perfectly sure that it is necessary to do something before the public are given the details.

Q. This suggestion of mine would call merely for an annual statement to Parliament. It is not intended that every time a crisis arose the public should be consulted. Do you not think it would tend to restore confidence in banks if the public knew there was an annual statement to be given to them?—A. If you qualify it that way I would say there are some things a Government official might embody in a report to Parliament. I rather carried the idea of reporting to Parliament to its logical conclusion. That is to say, the details might be expected. I assume Government officials might very well make some sort of formal or reassuring report to Parliament which might be sufficient for their purpose. It all depends upon what is included in that report.

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Q. This was a point raised the other day. Would you think that it would be a distinct advance if inquiries of this kind could be made mandatory instead of simply as it is today?—A. I think the provision for the exercise of the powers vested in the Minister at the present time should be made mandatory.

*By Mr. Garland:*

Q. Following up the questions of Mr. Woodsworth may I ask what has been your experience with the Department of Finance? I mean, how long have you been connected and what was the scope of your duties?—A. Of my duties?

Q. Yes, in connection with the work of the Department of Finance?—A. I have been called into consultation in most of the matters where there is relationship between the Department of Finance and the bank. I cannot enumerate them.

Q. Just exactly what were your duties? What was the nature of your work?—A. My first instructions from the Department of Finance in connection with bank matters were to make an investigation of the Merchants Bank situation.

*By Mr. Maclean:*

Q. At what date?—A. That was in 1922. I attended at the prosecution and gave evidence and did everything that was required of me in that regard.

*By Mr. Garland:*

Q. You have been more or less steadily employed by the Department ever since?—A. On and off. I am still the head of my own business. The next duty I was called upon to perform was to take on a study of the Bank Act with a view of amending clauses for the purpose of, as I thought, improving it in the light of what I had found in the Merchants Bank case.

Q. Were you aware of the condition of the Banque Nationale?—A. Only by rumour until the month of November.

Q. Were you aware of the condition of the Home Bank?—A. No, not until the bank closed its doors—after that.

Q. Your duties with the Department of Finance did not include in any way your being aware of the state of these banks?—A. It was entirely in the discretion of the Ministers to direct me in any matters of that kind.

Q. Do you know anything of the condition of the bank to-day?—A. Yes.

Q. Would you be willing to give to the Committee a statement of the condition of the individual banks?

Mr. HANSON: I think that is entirely without the purview of this reference.

Mr. GARLAND: That comes within the subject of inspection.

Mr. HANSON: I maintain that question is clearly out of order.

Mr. GARLAND: I am simply asking him whether should the Committee desire the information, he is prepared to give a statement as to the condition of the individual banks to-day. Last year we did not know the condition of the Banque Nationale or the condition of the Home Bank. Perhaps some people knew it, but the Committee was not informed. We want as far as possible to get the true condition of the banks of this country now, and not next year after two or three other banks perhaps have failed.

Mr. HANSON: We are not inquiring into the condition of the banks of Canada.

The VICE-CHAIRMAN: The witness has given a statement of the system of Government inspection of the banks. We have, I think, accepted a ruling that we were to cross-examine on this point. If the honourable members would like to introduce a subject of which mention is now made I think it should be made a

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special matter for discussion later on, but I think it would be advisable if the Committee want the evidence to be intelligible to restrict questions to the matter of Governmental supervision of banks.

Mr. GARLAND: This has a very direct bearing on Government inspection. We want to ascertain what information the Department of Finance and the Minister has with regard to the condition of banks; what protection there is for the people of this country in regard to that, and I asked the witness if he knew the condition of the banks, and if not, from whom can the Minister of Finance at this moment within his Department secure this information.

Mr. HANSON: I think it is out of order.

The VICE-CHAIRMAN: I think the question as put now in its general form is quite relevant.

*By Mr. Garland:*

Q. If you are not aware of the condition of the banks to-day, from whom, in the Department of Finance, can this Committee secure such information as required?—A. I think the maximum of information on the subject is in the hands of either the Deputy Minister of Finance or myself.

Q. What opportunities have you for getting this information?—A. The Minister, in the exercise of the powers given to him by the amendments of last session, called for a great deal of additional information from the banks and that is being furnished, and I have examined that information.

Q. You think the Minister and his Department will be in a better position from now on to know the actual condition of the banks?—A. I consider the Department is in infinitely better position than it was a year ago to know the condition of the banks.

Q. Will it have sufficient knowledge now to guard against any such recurrence as the disaster to the Home Bank or the Banque Nationale, as has been suggested?—A. I am inclined to think so, but I would not like to answer the question too positively.

Q. You would not like to answer that statement?—A. I do not want to give an unqualified answer now to this question.

*By Mr. Hanson:*

Q. Dealing with the question of Government inspection of banks which is an important proposition, and having regard to your knowledge of the Canadian banking system, will you agree that this proposition that the solvency of a bank depends entirely upon the value of its securities, and the method by which a bank is using its depositors' money?—A. Yes, the value and convertibility.

Q. And of course the liquid stability and convertibility of its securities?—A. Yes.

Q. Do you think any Government inspection would put the Department in the position to analyze correctly the value of the banks' securities, especially with the branch system?—A. I think if the machinery now in the Act is set in motion that can be done.

Q. Will you elaborate on that a little more? In what way do you think the average Government bank inspector, such as they have in the United States, would be able to value the collateral lodged with the bank, say in Cuba, or any province in Canada? Would he be in a better position than the banks' own inspection system?—A. The functions of an auditor are distinctly judicial. He is entitled to call upon anybody and everybody whom he thinks may be able to help him, and to enlighten him, whether on the question of values or other facts, and he has the right, and I would say it is his duty, as an auditor under the present Act to examine into and form an independent judgment upon every-

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thing put before him. And I say, that strengthened and supported by the information that he can obtain, examining the officials of the bank, and the reports of inspectors and all the material there available, he is in a position to pass a very intelligent judgment on the situation.

*By Mr. McMaster:*

Q. And that judgment can be untrammelled and independent? Is not that the value of the Government inspection?—A. That is the theory, yes.

*By Mr. Hanson:*

Q. You are familiar with the bank inspection of the United States?—A. Not too familiar with it. I know something of it.

Q. Is it not a fact that their system of Government inspection has not prevented the failure of banks? Is it not a fact that the Government inspection of the United States usually brings about the failure of banks in the case of the weak ones?—A. The Government inspection of national banks is supposed to occur twice a year in the case of each national bank. It is impossible to say whether any of these half-yearly inspections by the Government inspector has had a deterrent or a salutary effect upon the future condition of the bank. I think these facts are not available to the public.

*By Mr. Morin:*

Q. Has it prevented failure?—A. I would say that likely it has prevented some failures by giving notice or warning to a bank to restrict its activities or put its affairs in a more satisfactory condition. I have no doubt it has had some good effect.

*By Mr. Marler:*

Q. You are familiar with the present system of bank inspection and the reports which the auditors send in, and to whom they are sent in? With all of that you are quite familiar?—A. Yes.

Q. You are also familiar with form of returns these auditors are required to send in?—A. Yes.

Q. You are also no doubt familiar with the various procedures of the auditors before the reports are signed by the auditors themselves, and the officers on behalf of the bank?—A. Yes.

Q. You also are in no doubt as to what these auditors do in the preparation of the statements? In other words, as to the books and securities they examine and the general effect of the statement as submitted for final approval?—A. Yes.

Q. In your examination by Mr. Woodsworth this morning, did I understand you to say that any system of Government inspection would consist of a primary inspection or a secondary inspection? I mean by that, would a Government inspector make another inspection of securities, or the value of securities and the various books of account, or would the Government inspector take as satisfactory a primary inspection made by the auditors under the Bank Act at the present time?—A. If upon making a general test of the situation he was satisfied that the auditors appointed by the bank had fully done their duty in this matter, he would place great reliance upon that.

Q. Mr. Edwards, this is a very important point because this system of Government inspection has either to be a good inspection or a bad inspection, an inspection of value to the shareholders or depositors, and to the public generally, or is not to be, and in that broad and essential feature we are all very anxious to learn all we can, in view of what has passed in the last year or so. Will you tell the Committee this; assuming there is a Government inspection, how

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can the Government inspector judge from the returns made by the ordinary auditor of the bank anything more than a very superficial condition of affairs? Before you answer that, would you also consider this point? Is the account as submitted and approved by the auditors of the Banque Nationale more or less than a general account and statement, without actually getting into the value of matters in that particular account? I am asking for information now.—A. By no means. The auditor, under the Act, has to form an independent opinion, and that is to state that the statement referred to discloses the true condition of the bank. That is section 56, subsection 11, and I would say that unless an auditor reasonably satisfies himself upon the value of securities, he cannot give that certificate.

Q. In the past, if an auditor satisfied himself with regard to the value of securities, loans, mortgages and hypothecs taken by the bank in the way of collateral and submitted that as an actual statement showing the value of the assets, was that sufficient?—A. My opinion is that any first-rate firm of auditors would do that, whether required by the Act or not, and I think in most cases it was done under the old Act.

Q. That has been your experience?—A. It has not been my experience in the Merchants Bank case nor the Home Bank case, but I think in the majority of cases it was so.

Q. Was it your experience in the Home Bank case?—A. The Home Bank case is, of course—

Q. I am asking for information now?—A. I do not know how much I ought to say with regard to the methods employed by a man who is under indictment at the present time, but he did not give attention to value.

Q. Was it your experience in the Banque Nationale case?—A. I was not in that. I cannot answer that.

Q. Was it? That is a very serious matter, because the statement showed little or nothing and was of no value at all.—A. I do not like to venture an opinion upon something I have not seen.

The VICE-CHAIRMAN: I do not know if that question is in order if the witness says he would not venture an opinion, because he had nothing to do with it.

*By Mr. Marler:*

Q. I am not trying to throw suspicion on any statements you have made but simply to get at the actual procedure which will be effective in the event of the Government inspection of banks, because it goes without saying that unless we have a true and proper inspection there is no use having any at all, so I am citing these particular cases regarding these banks because if a secondary inspection is to be made, that is to say an inspection of an inspection, will we be in any better position than we are now? These past inspections have apparently not been of any particular value, and what I want to ask you again is, if these are merely secondary inspections, are we going to get any better system of inspection, or are we not?—A. There are fourteen banks, and it is quite possible that there are fourteen points of view with reference to the rules to be applied to values. I think there will not be that many but the advantage I would suggest from an officer coming into contact with all the banks would be that he would be able to standardize the point of view, and that would be a very helpful step to take. In other words, the rules that a very strong bank would apply might not be the rules that a less strong bank would apply, and one man viewing the whole situation would be able to measure the standard of values applied by one bank with the standard of values applied by another bank and arrive at a certain judgment as to the proper point of view to apply to all the banks.

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Q. Is that not very generally applied to institutions of that description? I mean to say that the government inspector eventually standardizes what the values are, say by the procedure adopted by a well-known institution like the Bank of Montreal. Is it the intention of the inspector in a bank inspection case to get actually down to the facts and see whether or not the securities included in the statement are good securities or bad securities?—A. I would say that that ought to be included.

Q. In the other words that would be a direct inspection by the government inspector of those particular securities, not taking the inspection by the auditors under the Bank Act, but a direct inspection by the government inspector of those particular securities, so that that inspector can see that that particular item in that account, as returned to the Minister of Finance was actually correct?—A. Do you mean by securities, the loans and securities, current and commercial loans, everything?

Q. I do.—A. It would be practically impossible without a huge organization for an auditor to make first hand examination of that kind.

Q. That is the very point I want to get. Those securities could not possibly be inspected by a government inspector, commercial loans, current loans, various non-current loans, mortgages taken as securities, hypothecs, loans for collateral, and half a hundred other transactions—it would be utterly impossible for the Government, without a huge staff, to verify those in any particular?—A. In the first instance yes.

Q. That is a direct answer no; they could not do it?—A. No.

Q. A Government inspection will come down to a secondary inspection. It could not be anything more or anything less?—A. A Government inspection would take account of the procedure. I think that is very important, the procedure which a bank adopts for the safety of its creditors and its shareholders; in other words, the internal system, the value of it, the efficiency of it and the personnel of it—all these matters are matters which would contribute to the auditors' information and to the judgement which he would form upon the situation. I think it is the only way it could be done.

Q. What is the value of the audit to the Minister of Finance if the Government inspector simply looks into the ordinary general procedure of a bank and sees that the bank is correctly run or not correctly run. That is simply superficial. What good would it do to see that the outstanding current loans, say of \$20,000,000, were worth \$20,000,000, or not?—A. I can assure you that is of very great value. If an outside inspection of the two cases of the Merchants Bank and the Home Bank had been limited to a study of the procedure of those banks, it would have led to earlier attention.

Q. If I am not taking up too much time, take the study of procedure; you mean by procedure as to how, and to whom, a loan is made and on what collateral the loan is made? Am I correct in that?—A. And what examination and what precautions are taken with regard to the granting of it.

Q. That means that substantially in every single large loan, every one, the procedure would have to be examined directly by the Government inspector?—A. I think the Government auditor could satisfy himself as to the procedure without necessarily going through every detail of it.

Q. Could he do so without valuing the securities?—A. For that purpose he has the assistance of the Banks' Internal Inspection, the reports of the branch managers as to outside securities, and he has periodical statements, all of which tend to corroborate or disprove one another, and the collective value of that information is enormous.

Q. Also, I may add, the information given him by the ordinary auditors of the bank?—A. Quite.



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Q. In other words, this information is first of all collected by the ordinary auditors and sent to the head office. These returns are made by the ordinary bank auditors under the Bank Act, and when the Government auditor comes along and looks over the whole thing again. How much further do we get by the Government inspector doing that? Mark you, he is taking the values given to the securities by the banks' own inspectors and by the banks' own auditors, and he is also taking the personnel. You will agree with me—

Mr. HEALY: I do not think we should argue those points with the witness.

Mr. MARLER: I am not arguing; I am trying to get at a very important question as to whether a Government inspector would do any good. If it is a good system, let us have one that we know about.

Mr. HEALY: I think that right now you are arguing; we want to get the evidence.

The VICE-CHAIRMAN: In cross-examination an hon. member who puts a question can argue with the witness to obtain further information or his point of view on any particular subject. Of course, we must not indulge too much in it, but I think it is fair, and I think the hon. member, so far, is quite in order.

Mr. MARLER: I am not trying to make a speech.

Mr. HEALY: You were certainly succeeding.

Mr. MARLER: You will forgive me, Mr. Edwards,—

WITNESS: I am very much interested in your questions.

*By Mr. Marler:*

Q. The point I am trying to make clear to myself and to the Committee is as to the value of Government inspection. I think you will agree with me, and I think perhaps the Committee will agree with me, and I think the Acting Minister of Finance will agree with me—

Hon. Mr. ROBB: not always.

Mr. MARLER: If the Government does take up Government inspection, the Government must assume certain liabilities in that connection. How can you get out of assuming certain liabilities? What is the intention of Government inspection unless the public knows that the Government O.K.'s, puts its guinea stamp on the statement that comes out—there is no getting away from that.

WITNESS: I suppose that the value of Government inspection is the knowledge that so long as the Government takes no action in respect to a bank, it is satisfied with its position.

*By Mr. Marler:*

Q. We have that position of affairs at the present time. Taking no action with regard to other banks in the past, the public has gone ahead and thought that those banks were perfectly solvent.—A. Of course, there is the new Act.

Q. There is the new Act, and since that Act was promulgated, many things have happened during the last six months; we are quite aware of that?—A. I think that is complimentary to the new Act.

Q. Perhaps it is; perhaps the new Act will cure a great deal. But to return to the question of bank inspection, am I right in thinking that this bank inspection which is suggested will be a secondary inspection? You quite understand from my argument what I mean by secondary inspection?—A. It will be a secondary inspection for the most part.

Hon. Mr. ROBB: Before we leave that point, I notice that Mr. Marler and other hon. gentlemen have, by way of reference, alluded frequently to the

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amalgamation of the Banque Nationale, and to the failure of the Merchants Bank and the Home Bank. I would like Mr. Edwards to clear up the difference existing between the present Act as amended last session and the old Act, and to say if in his judgment the amended Act hurried along an improvement of the situation, the protection of the depositors in the Banque Nationale, and perhaps brought about the crisis in the Home Bank.

Mr. W. F. MACLEAN: They have protection, but it seems that it is dependent upon somebody's action. Is there something imperative when this improved system, of which the Acting Minister speaks, goes into operation. Does the Minister say that there is something imperative on somebody under the Act now to have a real inspection of the banks?

Hon. Mr. ROBB: The Minister has very decided opinions as to what the Government proposes to do, but I want the witness, who is an expert, to clear up for us, and for hon. gentlemen as well as for myself, what real powers we have under this new Act, what is the difference between this Act and the old Act.

Mr. W. F. MACLEAN: Is it dependent on an "if"?

WITNESS: So far as I was able to do so, I advised the Minister last session as to the amendments which might be made in the Act to correct the defects in the previous one. One of those defects, as developed by the Merchants Bank case was this: There was legal opinion existing to the effect that a bank was not required to set aside appropriations for losses occurring during the year until the time came for issuing its annual statement. I think I am correct in saying that the opinion was expressed during the course of the trial in Montreal of the Merchants Bank directors that a statement which conformed with the books was the only statement that could be made to the Government. Now, under the revised Act, that is all altered. Every monthly statement must disclose the true condition according to the latest information available; that is to say, any knowledge of losses occurring during the previous thirty days must be embodied in the statement, and appropriations must be set aside and kept set aside month by month for those contingencies.

*By Mr. Hughes:*

Q. What Section is that?—A. Section 113, subsection 4.

"Notwithstanding anything in the last preceding section contained it shall not except as to the chief accountant or acting chief accountant of the bank, be sufficient for the purposes of any return provided for or required under the said section that such return agrees with the books of the bank, but the return shall set forth the true financial position of bank on the last judicial day of the month last preceding the date of the return according to the latest information possessed by or reasonably available to the officers of any of them who sign the return."

I think that is an exceedingly important amendment. That would include a situation such as was developed in the Merchants Bank case.

*By Mr. Spencer:*

Q. What penalty is there?—A. The penalties are in Section 153. There is punishment by imprisonment for five years where it is done with intent, and where there is neglect, imprisonment not exceeding three years.

*By Mr. Sales:*

Q. It is a criminal offence?—A. It is a criminal offence. Then in connection with the audits. I think I made it clear to the Committee when I ad-

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dressed them last year that the audit clauses were ineffective; that is to say the audit clauses only permitted the auditors to go so far. In other words, their scrutiny of the banks' affairs was limited if the management chose to limit that inspection to certain specific things mentioned in the Act.

*By Mr. W. F. Maclean:*

Q. In which clause of the Act?—A. That was in Section 56, the old 56. I have not got it here. Now, that is all changed, and an auditor expresses his opinions on the position of the bank without any reservation.

Q. Is that set out in sub-section 8 of sub-section 9, page 26 of the new Act?—A. Sub-section 8 was in the old Act.

Q. Sub-sections 8 and 9?—A. Sub-section 8 states "Every auditor of a bank shall have a right of access."

Q. What I want to know is where is this improvement that the Minister wishes you to explain in the new Act?—A. You are referring to sub-section 8. That is the same in the new Act as it was in the old, but by reason of the context of other sub-sections of the Act it has a different effect.

Q. A better effect?—A. A better effect.

Q. But it is all dependent?—A. It reads:—

"Every auditor of a bank shall have a right of access to the books and accounts, cash, securities, documents and vouchers of the bank, and shall be entitled to require and receive from the directors and officers of the bank such information and explanation as may be necessary for the performance of the duties of the auditors."

The other sections of the old Act limited the duties of the auditors. In effect they were denied access to certain books.

Q. That is for the protection of the auditor. He must act. But for the protection of the public we have clause 9, where it says:—

"The Minister may from time to time require that the auditors of a bank shall report to him upon the adequacy of the procedure adopted by the bank or the safety of its creditors and shareholders."

and so on. It is not imperative as to his doing it. Should there not be an officer whose duty would be imperative to do something for the protection of the public? There is one other observation I want to make. My honourable friend from Montreal (Mr. Marler), has said something about public inspection not being sound. We are going to get some man who knows what bank inspection in the United States really means, and I want witnesses to come here and tell us what Government inspection really means.

Mr. McMASTER: I postponed asking a question in order to give the witness ample opportunity to answer the Minister's question, and I think he should be given that opportunity.

The VICE-CHAIRMAN: I suggest that we listen to the witness, and then any member who wishes to put a question can do so.

Mr. IRVINE: I wish to suggest that the Hon Acting Minister of Finance introduced chaos. If he wants to get information, why does he not ask the questions himself, and bring out the information.

Mr. McMASTER: He asked the witness to address himself to certain questions, and the witness has been interrupted and has not had a chance to reply.

WITNESS: What I say about sub-section 8 is that while it is the same sub-section, the duties of the auditors are differently defined. It enlarges the right of access on the part of the auditor, although it is in the same words as were in before. As to sub-section 9, I have already testified here as to what I think should supplement that section. I think sub-section 10 is a very important one.



The thing that impressed itself upon me in the course of my examination of the Merchants Bank affairs was the ignorance of the directors as to very important facts affecting the position of the Bank. Arising out of that, several clauses or sections of the Bank Act were amended in order to emphasize the responsibility of the directors; and one of the things that was done to assist the directors by ensuring that they would have a knowledge of matters, and that matters could not be concealed from them was sub-section 10, which places upon the auditors the duty of bringing such matters to the attention of directors in a written document mailed to each director; and each director has that responsibility. So, a director has two chances independently, through two auditors, to obtain information which may have been previously concealed from him. In most cases, I think directors will take their duties seriously if they have the facts, and this was intended to ensure that the directors would have the facts; and I think to that extent it is a very great improvement over the Act of last session.

Now, another improvement is in the fact that there are two independent auditors. That is to say, they are not connected in business; they have no common business relationship. Each is responsible for his own acts. That arose out of consideration of the Merchants Bank case, where two partners in a firm were appointed auditors and the matter was left for the most part to one of the auditors, the other accepting responsibility for what he did. That cannot occur again. A further provision provides for a rotation of auditors—not exactly that—at all events, that there shall be a change of one of the auditors every two years, so that every two years, whatever may have been the defect in the point of view of the previous auditors, there will be a new auditor coming in without any previous knowledge and viewing the matter for the first time and expressing his opinion. That is an excellent feature. I believe that the audit clauses are tremendously in advance of the old ones, and afford a great measure of security to depositors, or assurances, at all events of the position of the bank. Now, in the Home Bank case, they never came under the operation of the new Act; they never made a return under the provisions of the new Act.

*By Mr. Hanson:*

Q. They could not?—A. The collapse came before the new Act came into effect. They could not have complied with the requirements of the new Act.

Q. The same is true with regard to the Banque Nationale?—A. As I said, I do not know about that case.

*By Mr. McMaster:*

Q. Mr. Edwards, am I right in my view that the failures of banks in recent years have been principally failures due to what you might call head office management rather than branch management?—A. They have been due to causes which were ascertainable by examination of the head office accounts and procedure.

Q. Were they not due, in some measure at least, to the advancement of very large sums of money in comparison with the total reserves of the bank, to comparatively few customers in number?—A. Well, there were instances of that kind.

Q. Would that not be easily discoverable by a Government audit?—A. Easily, yes.

Q. Would the Government audit be able to determine, without a great deal of digging a comparison of the nature of the securities accepted by the different banks?—A. I think so, and it would be very valuable. You would have a comparative study of each bank.

Q. If it appeared that one bank was lending very large sums of money—let us say on such a commodity as cheese—while other banks were restricting their



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advances on such a commodity, would not that be easily discoverable by a government auditor, and would it not enable him to bring that matter to the attention of the Government?—A. The matter would provoke inquiry, would lead to inquiry.

Q. Would not a government audit easily discover whether banks were advancing different amounts in respect to securities more or less of the same value? Let me give an instance. Let us suppose that a number of banks were advancing considerable sums of money on lumber, say, on timber limits; would it not be very easily discoverable if one bank was lending a very much higher amount per mile than other banks were lending on limits on comparatively the same value?—A. It would, and it would also lead to inquiry. I would think where any bank was lending unduly on any class of security which might be adversely affected by market conditions causing a serious slump.

Q. Would it not be easily discoverable by a government audit if certain banks were lending say one customer or two customers a very much larger proportion of their total reserves, both in capital and deposits, than the ordinary rules of banking permitted?—A. Yes.

Q. Then, it is your opinion, as I take it, that although a government audit might make use of a great deal of work done by the banks' internal audit, nevertheless, it might have a very wholesome effect in preventing such a situation?—A. Yes.

Mr. W. F. MACLEAN: Do you mean by government audit, government inspection?

Mr. McMASTER: Yes, government inspection.

WITNESS: While on that point, I would like to make this statement respecting the value of information obtainable from the bank's own offices. Mr. Marler rather inferred, I think, that it would lack dependability if obtained from the bank's own officers. It might be a fact that certain bank officers were not dependable.

Mr. MARLER: As to secondary evidence, not primary. They might be quite dependable as regards primary inspection.

WITNESS: My point was simply this: If you have reports coming in from 500 branch managers, they are the views of 500 people each upon the matters under his own eye. That is an almost invaluable source of information, taken collectively. There may be a few optimists, and there may be a few pessimists, or a few who are deliberately concealing. But in the mass that will be very dependable information upon which the Government auditor could rely, if he finds that the system is being properly carried out and that the procedure is right.

*By Mr. Irvine:*

Q. Mr. Edwards, I think you said a few moments ago that you advised the Minister last year as to the amendments which were incorporated in the Bank Act?—A. Yes.

Q. Did you advise him with regard to those which were dropped, as he himself proposed?—A. I do not recall to what you refer, Mr. Irvine. I know that the Minister altered the form of certain amendments. He stated at the outset that he might have to do that in the light of the evidence given.

Q. Mr. Fielding moved that clauses "M" and "N" be struck out. Those were his own sub-sections?—A. What section?

Q. Section 54. They were dropped, and he argued they were dropped on the advice of the bankers' representatives that it would perhaps be information that should not be given?—A. I remember that.

Q. I was wondering who advised him?—A. It was agreed by the committee that the Minister would be at liberty to obtain information in any way, and

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special sub-sections were passed to enable the Minister to do that, and that was being done all through the recess.

Q. Did you think last year that any form of Government inspection would be of any service to the depositors?—A. I don't remember just what view I took last year.

Q. You did not advise the Minister against the passing of Mr. Woodsworth's resolution, did you?—A. I took the responsibility of commenting upon it to the Minister.

Q. Unfavourably?—A. I said nothing to the Minister but what I said in Committee.

Mr. SHAW: Surely the witness has the right to change his mind?

Mr. IRVINE: Certainly.

*By Mr. Irvine:*

Q. I suppose you will object to something I will suggest in a few minutes; it would not follow that it was wrong for me to suggest it. You might agree to it next year after four or five more banks have failed, but where others have done their duty to the best of their ability, according to the Bank Act, when the Finance Minister has used discretion and done his duty according to that discretion is it not still impossible to prevent a bank from failing?—A. No.

Q. So that a bank may fail when the very best has been done with the Act as it now stands?—A. Yes.

Q. Or so far as it may be amended?—A. Quite. A bank may fail from causes that have nothing to do with a Minister's discretion.

Q. You cannot see any way by which a Minister may be allowed to accept responsibility for public losses, but can give advice in certain cases?—A. Not unless he is prepared to manage the bank. If the Minister were to do that it would lead, I doubt not, to laxity of management.

Q. You suggested a few minutes ago to Mr. Woodsworth that he could not accept that responsibility?—A. I don't think I put it exactly that way. I would say he ought to accept no responsibility involving a guarantee of deposits.

Q. And I think you suggested also that it would not be advisable to permit the public to know the facts as to how the banks are investing their money?—A. I think that would be very dangerous.

Q. Then you agree that the bankers have all the protection that can be logically given to them while they enjoy the right of franchise or of charter to handle the public funds, but the public has absolutely no protection. Is that the situation?—A. I don't quite follow you. I don't think I have said anything to lead up to that conclusion at all.

Q. Will you disagree with that?—A. My activities in connection with the Bank Act, at the request of the Minister, have been entirely in the public interest.

Q. Yes, but you have agreed that when you have done your best, you cannot protect the public from bank failures?—A. I agree there are some contingencies which cannot be met by legislation.

Q. Then the situation is that the Minister cannot accept responsibility, or at least, you would not advise him to, but you would advise that the public must not know as to the condition of their deposits and how bankers are handling them. We have legislation which protects the bankers in that respect but there is no legislation to protect the public?—A. I think the whole Bank Act is legislation to protect the public.

Q. Then the whole Act fails when the crisis comes?—A. In my judgment it gives a very large measure of protection.

Q. Do you believe in the general principle that public savings should be protected?—A. I think so.



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Q. Well then since the public is not allowed to know the facts, and since the Minister cannot be responsible for losses sustained by a private corporation to whom the country's credit has been given, and since many people are called upon to sustain periodical losses because of this condition, and since the Government inspection can give no guarantee of safe-guarding deposits, you would not advise that the people take back from the banks the chartered right of controlling their credit?—A. That is rather an involved question.

Q. I am asking it from your own statements, Mr. Edwards. I have followed your steps of what you said could not be done, and what it is not advisable to do, and the facts of the present situation. You cannot state there will be no bank failure next week; you did not answer Mr. Garland's question as to the condition of banks at the present time. They may break to-morrow. I think you have a knowledge of banking and you think there is something wrong, since you cannot tell us about it?—A. No, you are absolutely wrong.

Q. That is the impression I got. Possibly others may have got a different impression.

The VICE-CHAIRMAN: I hardly think that question has been fairly put.

Mr. IRVINE: I am not pressing the question.

The VICE-CHAIRMAN: You are cross-examining the witness. Put questions to him.

Mr. IRVINE: I was connecting my previous question to that situation. I am not pressing for an answer to that question at all.

*By Mr. Irvine:*

Q. I have been trying to follow your line of reasoning as you have been examined by other gentlemen, Mr. Edwards, and you have given in a clear manner the statement that the public must not be allowed to know exactly what the banks were doing. That is one thing you have said. You have also said it would be inadvisable for the Minister to accept any responsibility with regard to guaranteeing deposits, and you have admitted that, so far as you are aware, there is no system of banking inspection that would absolutely guarantee against losses?—A. Quite.

Q. You do not have to admit it; it is a general fact that the public sustain losses because of these conditions which now prevail, and in view of the fact that they cannot be altered in the way we are asking, as you say, are you in favour of giving back to the people in some way or other control of the credit which the bankers are now permitted by legislation to monopolize?—A. I would have to understand a little more about it before I could answer that.

Q. Supposing I suggested we should have Government ownership of banks, since the bankers cannot guarantee deposits—I do not say that is the best way, but that is one way; would you be in favour of that?—A. I think it would be a very difficult experiment, Government ownership of banks. I know it has been done in Australia, but I could not possibly, in a moment, give an opinion on that.

Q. Would you say the present system as it is now operating is a very difficult experiment?—A. It is a well-tried system.

Q. Yes, well-tried, but the Home Bank and the Merchants Bank and the Farmers Bank were all outstanding failures. Are you satisfied with that?—A. Those are, of course, regrettable incidents, but they do not disturb my confidence in the general system of banking in this country.

Q. They disturb the confidence of a great many other people who perhaps are more important to banks either than yourself,—the depositors.—A. It has no doubt disturbed public confidence.

Q. Have you anything to suggest at the moment which would re-establish public confidence since it is known now there is no safety for depositors? Do

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you believe you could re-establish a confidence on that basis?—A. I think it would help.

*By Mr. McMaster:*

Q. The amendment you have suggested would help?—A. Yes. Oh, do you mean the amendment of last session?

*By Mr. Irvine:*

Q. Yes. From your own knowledge you admit there is no guarantee of safer deposits?—A. I will put it this way; I think the Audit and other sections introduced into the Act last year were great advances over previous conditions. I think a super-imposed system of supervision of banks through a Government-appointed officer would be a further advance over the Act in its present form. I do not say it would be a "cure-all" or that it would favour absolute guarantee.

Q. But my question is, do you think you can build up a confidence without that guarantee?—A. I don't know why not. There is no such thing as a guarantee of bank deposits, anyhow.

Q. That might be, but you will quite agree that in Canada at the present time there is a widespread distrust of the banking system?—A. I don't know that. I think some people are persuading themselves that way, but I do not think that is the fact.

Q. I would like to persuade you it is a fact and that there are great grounds for that fact. We ought to have something to re-establish that confidence in the interest of Canada, and I suggest that on the present basis that cannot be done. Do you agree with me?—A. No, I don't agree with you.

*By Hon. Mr. Stevens:*

Q. I would like to ask you one question. The suggestion is made that perhaps we could strengthen the present audit system by super-imposing an inspection of head offices. Having in mind subsection 9 of section 56, for illustration, I would like to ask you, if it were made obligatory instead of simply optional with the Minister that the banks' auditors instead of reporting from time to time should report at specified periods, say from three to six months, would not the Minister or an official appointed by the Minister be in possession of all the essential facts necessary to correctly understand the condition of the banks, equally as well as if the Minister appointed somebody to enter into an examination of the books for himself?—A. In my opinion, yes.

Q. So that an official of the Finance Department, qualified of course, would accomplish all we are now discussing in regard to an additional audit, just as well as by a physical examination of these head office accounts?—A. I think so; but at the same time it does not preclude the right of the Government officer to investigate personally anything he saw fit.

Hon. Mr. STEVENS: Yes, we should have that clearly understood, that it is not to prevent any further examination.

*By Mr. Hughes:*

Q. Has the Bankers' Association any knowledge of the methods pursued by the bank, whether they are in accordance with the usual banking principles, and prudent or imprudent?—A. I have not sufficient knowledge to answer that question generally, but I remember having a conversation with the general manager of a bank, and I discussed with him the degree of knowledge which the other banks might have been expected to have of the condition of the Home Bank during the few years preceding its collapse, and the answer was that in that case it was difficult to know what to make of it. There was a variety of opinions held with regard to the position of the Home Bank; some-

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times they thought it was not as good as it ought to be, and at other times their suppositions were altered. I can only ask you to draw your own inferences from that conversation, because that is as far as it went.

Q. There were suppositions, at all events?—A. Doubts were occasionally raised. I say that in order to suggest to you that the banks probably have no special facilities for ascertaining the condition of other banks.

Q. Has the Bankers' Association access to the returns which are made to the Government?—A. The monthly returns, yes. They are published in the Gazette.

Q. But they only have access to the documents to which the public have access?—A. Well, as far as I know.

Q. And from an examination of these returns could an opinion be formed as to the method pursued by the different banks and as to their soundness?—

A. From all the information which is given to the Government in the form of returns a tolerably good opinion could be formed—although not complete.

Q. If the Bankers' Association or an officer designated by the Association had the power or the right to get all the information that comes to the Finance Minister, in your opinion would that be a proper procedure?—A. A practicable method?

Q. Yes, a practicable method?—A. It would be practicable, if the Bankers' Association were willing or required to adopt that procedure; it would be quite proper, I think, if they consented amongst themselves.

Q. That would give the Bankers' Association as much knowledge as the Minister of Finance or the Deputy Minister possessed?—A. If the powers to obtain information were as wide as those which the Minister now has.

Q. Would you have any objection to a personal inspection, or would you see any objection to it from a public standpoint?—A. None whatever; if the Bankers' Association can do it, I would have no objection whatever.

*By Mr. Ladner:*

Q. On this very question yesterday I understood your opinion, after some examination, to be that it would be in the interest of the country and the banks to have legislation for the establishment of a system of separate Government inspection of the larger accounts at the Head Offices. Now, I am not speaking of the time when this should be done. Are you still of the same opinion and would you so advise the Minister of Finance?—A. I think I said yesterday, Mr. Ladner, that it would have advantages, but I want to make it clear that that alone would not constitute an adequate degree of supervision by the Government, if the Government were to decide upon supervision.

Q. As compared with the existing system, would it not be advantageous to establish a system of Government inspection of the larger accounts at the head office, because it is these accounts which have brought ruin to the bank? Apart from the question of perfection, would it not be wise to do that, as I understood you to say yesterday, at the next session of Parliament?—A. I think you could go further than that under the powers which the Minister now has.

Q. If he exercises his powers now suddenly, would it not be injurious to any bank he might enter, unless you made it an obligatory and regular inspection?—A. Quite. Any exercise of these powers, in my judgment, would have to be applicable to all the banks so that there would be nothing conspicuous about the entire thing.

Q. So the effectiveness of this provision for inspection by the Minister is approximately nil in its practical working out?—A. Not necessarily.

Q. It would apparently have to be an extreme case in which the Minister would be disposed to exercise that power under the Section, and send an examiner

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or auditor into the bank?—A. I do not think the sub-section contemplated merely a special set of circumstances, Mr. Ladner. I had something to do with the wording of that, and I know that was not in my mind.

Q. It is not what was in your mind; it is what has been expressed.—A. I think it expresses that too. I do not think it necessarily conveys the impression that it was to be used only in special cases.

Q. You think the Minister could not act under that Section unless he examined all the banks?—A. No, but I think it would be imprudent to exercise it in the case of one particular bank.

Q. Then the Section does not amount to very much?—A. Yes, because he can exercise his discretion in regard to all the banks.

Q. Your judgment is this, that if something was wrong with one bank it would be imprudent for the Minister to exercise his powers under this Section, unless he examined all the banks from the largest to the smallest. That is not very practical.—A. I think it is a very practical section.

Q. Do you not think that an irregular and impulsive inspection which would be imprudent and injurious, perhaps, would not be as good as having a system of Government inspection of the larger accounts at the head offices with a direct responsibility from the bank to the Government—not to the bank auditors, but to the Government examiner?—A. No, I would not disregard the bank auditors, or the responsibility of the bank officials.

Q. I am not asking you to disregard the bank auditors, I am asking if it would not be in the interest of the country and the banks to have a system of Government inspection by Government men of the large accounts at the head office. That is a plain proposition. Do you agree with it or not?—A. If nothing better was possible I would say that would help, but I think we have something better already in the Act.

Q. With this Section?—A. Yes.

Q. It makes the Minister examine all the banks when he only wants to examine one?—A. Why should he want to examine one. He has a very good chance to examine them all.

Q. Because he has evidence that one is not acting in good faith, or is acting wrongly, do you think he should examine all the banks?—A. I do not think that was the purpose of the sub-section. I think the purpose was that there should be a general inquiry into all the banks along the lines suggested.

Q. Surely that is a futile thing to do?—A. Absolutely not; it is a very useful thing to do.

Q. Suppose he found out something was wrong with one bank; what is the course that the Minister should pursue?—A. If you say it is futile, you have to take it for granted that some banks are sound and some are not, and that is not a fair assumption for you to take.

Mr. LADNER: I think it is fair to assume that some banks are more sound than others—very much more.

Hon. Mr. ROBB: Will you tell the Department what banks you think are unsound?

Mr. LADNER: Does the Minister think all of the banks are of equal strength?

Hon. Mr. ROBB: No, but I wish you would tell the Department which banks you think are unsound.

Mr. LADNER: I will admit that some banks are more sound than others. In the past we have been faced with a situation where the public thought they were all sound, and some were absolutely rotten. What I am getting at is that with this new plan, of which Mr. Edwards spoke, in the Act, outside of this Section,

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we would naturally conclude the Minister could investigate any single bank of which he had knowledge that there was something wrong.

The WITNESS: Of course he has the power to do so under the Act, it would be a question for the Minister of how discreetly he could proceed.

*By Mr. Ladner:*

Q. Apart from this Section?—A. No, under this Section, Mr. Ladner.

Q. Mr. Edwards, your conclusion is that he should examine all the banks?—A. I think so.

Hon. Mr. ROBB: Do you object to that, Mr. Ladner?

Mr. LADNER: No, I don't object to that, but I think it is not practical. I think it would be better to have a periodical, regular inspection.

Hon. Mr. ROBB: Of all banks?

Mr. LADNER: Yes, and not under discretionary power, because that would not be fair.

*By Mr. Maclean:*

Q. I would like to ask you one question in connection with this duty you are now imposing upon the bank auditors, as to whether there is any penalty connected with the non-performance of the duties imposed?—A. I think so. Section 153 includes the auditors. It says, "Every president, vice-president, director, auditor, general manager or other officer either for neglect or for intent," etc.

Q. What happens?—A. The section speaks for itself.

Q. But what is your opinion?—A. I think that brings the auditor within the range of punishment if he does not do his duty.

Q. You said in substance that Government banks might be dangerous. I want to ask you if you know, as a matter of fact, that the Government of the United States and the whole credit of the United States is involved in a system of re-discounting which makes the Government of the United States the greatest banker in the world, and the backbone of the circulation of the United States and the credit of all the banks? Do you admit that?—A. I can make no definite statement as to the credit of the United States banking system.

Q. That is your statement. If your knowledge is limited you were hardly competent to make that statement?

*By Mr. Healy:*

Q. I understood from your evidence yesterday that we had progressed this far, that you were willing to advise the Government before next session in regard to a Government system of inspection?—A. Yes, I stated yesterday, I think, that to develop a system of Government inspection would require more time than that afforded by the present session of Parliament, but could be done by the next session.

Q. But we were permitted to conclude that you were ready to advise the Government that it was necessary?—A. I do not think I gave an unqualified opinion in regard to Government inspection. I think I limited it by stating that it was to be a system of inspection superimposed upon the present means of checking up banks, I would be in favour of it, but if it contemplated an independent system of Government inspection, I was not in favour of it.

Q. I don't care what the method is, as long as you are in favour of Government inspection. May we conclude that much?—A. I am in favour of the extension of the present system.

Q. Of Government inspection?—A. Yes.

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Q. But it need not go any farther than the head office, or the centres of reserve to make it practical?—A. And possibly a few branches if the circumstances warranted.

Q. Then if that secondary inspection led the Government to suspect a large account in a branch, they would have the authority to go in there?—A. Yes.

Q. And that would make it practically a Government inspection of banks?

*By Mr. McMaster:*

Q. Increasing the security of the people's deposits?—A. Yes.

*By Mr. Healy:*

Q. You are prepared to recommend that?—A. I do.

Mr. HEALY: Then why go further into the argument on inspection?

Q. You made another statement on which I want to be corrected if I have arrived at the wrong conclusion. You say there are no guaranteed deposits in Canada?—A. There are no banks where the Government guarantees deposits.

Q. What about the Post Office Savings Bank?—A. I grant you that, but that is not doing a banking business.

Q. That is what I asked you. It guarantees deposits?—A. Then allow me to correct it, because I have no idea of considering a Government Post Office Savings Bank as a banking institution. I am speaking of the banks as we generally understand them; people carrying on the business of banking.

Q. But I am speaking of guaranteed deposits.—A. There are various sorts of depositories which guarantee deposits; trust companies, for instance, have to set aside a portion of their securities to cover the deposits.

Q. Quite right. Those are deposits guaranteed by the Government? That is right?—A. That is right.

Q. Now, is there any other one? Does not the province of Ontario guarantee the deposits in its bank?—A. Yes.

*By Mr. Shaw:*

Q. Mr. Edwards, you have considerable faith in the amendment you proposed last year, and one cannot blame you for having confidence in your own child, but you said you were impressed in connection with the Merchants Bank by the ignorance of the directors, and you consequently put in this provision in which the auditors were called upon to report to the directors. You have listened to the Home Bank case. Were you convinced there of the knowledge of the directors?—A. I think the directors were ignorant, as a body.

Q. But were they not fully informed as to the facts?—A. I don't know, Mr. Shaw, whether I ought to answer that question, because the directors are at present charged with conspiracy.

The VICE-CHAIRMAN: We have exceeded our time, as it is past one o'clock, and if Mr. Shaw will suspend now he will have the privilege of being the first to examine Mr. Edwards at the next sitting.

I have to inform the Committee that I have received from Mr. Ladner a notice of motion that at the next sitting of the Committee he will move

"That in the opinion of this Committee the Bank Act should be amended in order to provide for the establishment in the chartered banks of Canada of a special savings account or other class of accounts for savings deposits in addition to those now existing, whereby all holders of deposits in such special savings account in any one bank, or branch thereof, shall be protected or guaranteed against loss up to the sum of \$3,000 according to a similar principle as that now provided for in Sections 62 to 69 inclusive of the Bank Act relating to the protection of bank notes by the establishment of a fund known as the

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Bank Circulation Redemption Fund, or that such special savings account be established in accordance with some other principle of insurance, the premium of which will be paid by the depositors or the chartered banks of Canada, or both, or in such other manner as the Committee may consider capable of giving reasonable protection to depositors of money in savings accounts in such sums as the Committee may determine."

This will, of course, remain on the table as a notice of motion until the next sitting of the Committee, and will be printed in the Order Paper for that sitting. I may say, however, that the question has been raised in my mind as to whether this is in order while a similar motion is pending before the House itself.

Mr. LADNER: It is finished before the House.

The VICE-CHAIRMAN: It still stands on the Order Paper.

Mr. LADNER: I can very easily change it from \$3,000 to \$3,001.

The VICE-CHAIRMAN: I do not wish to discuss this matter now but simply draw Mr. Ladner's attention to it so that he may be prepared at the next sitting.

Mr. LADNER: I will be prepared.

The VICE-CHAIRMAN: At the next meeting we will continue with Mr. Edwards' examination and Mr. Finlayson will also be in attendance. I may say that Sir William Stavert is here to-day and inasmuch as Mr. Finlayson is always in attendance I would suggest when we have finished with Mr. Edwards we proceed with the examination of Sir William Staver. I may say that we sent telegrams to-day to Mr. Williams asking him to attend on the 20th, and to Mr. Pole requesting him to be here on the 22nd, but we have as yet received no reply from them.

The Committee adjourned.

ROOM 231,

HOUSE OF COMMONS,

THURSDAY, May 15, 1924.

The Select Standing Committee on Banking and Commerce met at 11.00 o'clock a.m., Mr. Vien presiding.

The VICE-CHAIRMAN: I beg to communicate to the Committee that yesterday the House concurred in the report of the Committee that the Committee be granted leave to sit while the House is in session.

We have received a telegram from Mr. Skelton Williams in the following terms:—

RICHMOND, Va.

S. P. GORDON,  
Bank Committee.

"Telegram received today should your Committee desire I will be pleased to arrange to appear before Committee for purpose stated, at noon Thursday twenty-second instant upon arrival New York Central train number twenty-one due Ottawa eleven fifteen morning, returning South New York Central train number eight leaving Ottawa four twenty-five same day. Please telegraph promptly if this should be convenient to your Committee."



14-15 GEORGE V, A. 1924

We had decided that we would invite Mr. Williams to appear on Tuesday the 20th, but as he is unable to come until the 22nd, we wired him:—

“Your telegram received cancelling my telegram to you earlier in day. Proposed arrangement quite satisfactory. Committee will be pleased hear you day and hours suggested by you. Please come Banking Committee, House of Commons immediately on arrival.

(Sgd.) W. G. MITCHELL,  
*Chairman.*

Under these circumstances, we immediately telephoned to Mr. Pole asking him if he could come on Tuesday. We had previously wired him to appear on Thursday.

Mr. HEALY: Do I understand that Mr. Williams will get here on Tuesday?

The VICE-CHAIRMAN: We wired him inviting him to appear on Tuesday but he tells us he cannot come until Thursday.

Mr. HEALY: He will not arrive until 1 o'clock on Thursday.

The VICE-CHAIRMAN: 11 o'clock, I am told.

Mr. HEALY: The train gets in at 12.15, and as there will be daylight saving next week, that means 1.15.

The VICE-CHAIRMAN: The telegram states that the train is due in Ottawa at 11.15 in the morning. We telephoned to Mr. Pole, and Mr. Pole wired back:—

“Shall be pleased to appear before House of Commons Banking Committee on date mentioned.”

Therefore, on Tuesday next, we will have Mr. Pole, who is the National Bank examiner.

Mr. W. F. MACLEAN: A Government nominee?

The VICE-CHAIRMAN: Yes, he is under the Comptroller of Currency there, and is the inspector of the National Banks. Therefore, the programme will be, according to that, that on Tuesday next we will hear Mr. Pole, and on Thursday we will hear Mr. Williams.

Mr. W. F. MACLEAN: We will sit in the afternoon, if necessary.

The VICE-CHAIRMAN: Yes.

Mr. GOOD: I think we ought to have a clear understanding as to Mr. Williams' coming and going. If we cannot have him until 3 o'clock on Thursday, it seems that he will have to leave soon after 4 o'clock, and it would be practically useless, in these circumstances, to have him at all.

The VICE-CHAIRMAN: I think it will be advisable when these gentlemen come, for the Committee to adjourn for a brief recess at noon and sit again, say at 2 o'clock. Perhaps on the previous day we could decide to sit at 10 o'clock in the morning instead of at 11 o'clock.

Mr. W. F. MACLEAN: We will leave that to you, Mr. Chairman.

Mr. SPEAKMAN: Will daylight saving be in force next week? If so, it will mean an extra hour.

The VICE-CHAIRMAN: I believe so. If there are no notices of motions, we will continue with Mr. Edwards' evidence.

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GEORGE EDWARDS, recalled.

*By Mr. Shaw:*

Q. You were speaking yesterday, Mr. Edwards, at the time the Committee adjourned, about the question of the ignorance of the directors with regard to the real affairs of the bank, and you were of the opinion that the amendment which you suggested last year would provide some assurance that the directors were fully informed?—A. Yes.

Q. And I think you had mentioned that what had struck you was the fact that the Merchants Bank directors knew so little of the affairs of the bank?—A. Yes.

Q. And that was the reason for the amendment?—A. It was.

Q. I called your attention to the apparently full knowledge that the directors of the Home Bank had as to the real situation, but I do not know that I got your answer to that suggestion.—A. I would not say it was conclusive that the directors of the Home Bank had full knowledge of the whole situation. I think I said, just at the conclusion of the session, that the directors were under indictment for conspiracy and that the answers here might be prejudicial to their rights.

Q. You think it might be?—A. Yes.

Q. Of course I do not want to do anything that would prejudice their rights but may I put it in a negative form and ask you if you were not impressed with their lack of knowledge of the situation?—A. I think I was; I was impressed with their lack of comprehension of the situation, as it affected the condition of the bank.

Q. That is different. You mean you were impressed with their failure to understand their obligations?—A. The significance of what was there.

Q. But so far as the fundamental facts were concerned you would, I think, be prepared to admit that so far as you could observe—and you are but giving your own opinion, of course—they were pretty fully informed?—A. I think the outstanding matters were within their knowledge.

Q. Now, another thing which seemed in last year's amendment to be of special significance to you was that provision providing for the rotation of auditors?—A. Yes, I think so.

Q. In other words your idea is, as I take it, to have a man changed from time to time after he has had an opportunity of gathering experience as to the affairs of the bank, that is, that it is desirable to eliminate him and put in somebody else who is thoroughly unfamiliar with banking practice?—A. I think that would be an advantage, but my point was that I think a new, fresh, unprejudiced point of view brought upon it by another auditor would be an advantage; he might see things differently.

Q. In other words you give that priority over the value that increased knowledge, which experience would give an auditor, of the bank's affairs?—A. Yes, I do.

Q. You were also of the opinion that the certificate which the auditors have to give under the amendment is of very great value also?—A. A very much better certificate.

Q. I will read you a certificate given by one bank auditor as to the condition of the bank before this amendment came into effect. This is what it says:—

“In accordance with subsections 19 and 20 of section 56 of the Bank Act, 1913, I beg to report as follows: The foregoing balance sheet has been examined with the books and vouchers at the Head Office, and with the certified returns from the Branches, and is in accordance therewith. I have obtained all needed information from the officers of the bank, and,

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in my opinion, the transactions coming under my notice have been within the powers of the bank. The cash has been checked and the securities of the bank verified, at its chief office, both on the 31st of May, 1923, and also at another time during the year. The cash and securities of one of the branches have also been checked, and in each case they have agreed with the entries in the books of the bank with regard thereto. In my opinion, the above balance sheet is properly drawn up so as to show a true and correct view of the state of the bank's affairs, according to the best of my information and the explanations given to me, and as shown by the books of the bank."

That is a pretty complete auditor's report, and yet if you examine it closely it is defective. I have examined it fairly closely with reference to the provisions now required, and I am frank to say that I cannot see any substitute, Mr. Edwards, and I would like you to point it out. You know what that is? That is a certificate by the auditor of the Home Bank on the 31st of May last.—A. I do not recognize it, but I have no doubt that is it.

Q. Can you tell me how—A. In the first place I cannot carry all the points in my mind. I have no copy of the 1913 Act, in which the old audit provision occurs, with me, but the first point was the reference to subsections 19 and 20 of the section. Now, the auditor distinctly states that he had conformed to this section. That, in my judgment, is not a wide enough statement to cover everything that is of importance in auditing the affairs of the bank, but it may be as far as the auditor could go without exercising his own independent judgment and going on beyond the scope of the audit provision in the Act. Those sections, as I remember them, provide for certain definite things to be done. He must check up the balance sheet with the books; he must see that the securities are properly recorded in the books and are according to the books—

Q. Mr. Edwards, perhaps I can elucidate in this way; you have before you the 1923 amendment. You will find at the top of page 27 the certificate which the auditor must state to the shareholders in this report; "(a) whether or not they have obtained all the information or explanations they require." That is covered in the certificate I have read, and, "(b) whether in their opinion the transactions of the bank under their notice have been within the power of the bank." The auditor of the Home Bank stated that, did he not?—A. Yes.

Q. And then, "(c) whether in their opinion the statement referred to in their report discloses the true condition of the bank." Now he says, "In my opinion the above balance sheet is properly drawn up so as to show a true and correct view of the state of the bank's affairs"—A. According to the books.

Q. "According to the best of my information and the explanations given to me"—A. According to the best of his explanation and the information given to him. The information he is entitled to obtain under the old Act is not sufficient to enable him to give the certificate that is required under the present Act.

Q. So you think the certificate itself will be a real assurance that now we can depend upon the accuracy of the balance sheet furnished to the shareholders?—A. The certificate pledges him at the present time to use every means that occur to him or that he thinks necessary to satisfy himself as to the condition of the bank.

Q. He did not have that power before?—A. He did not.

Q. I think you must admit the statement given to the Home Bank auditor—A. It is a very ingenious form of certificate, Captain Shaw, but it is not ample.

Q. Now, I understand from your examination by Mr. Marler that the objection to bank inspection, if any there be, is that it involves the question of Governmental responsibility in case of loss?—A. It may.



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Q. Now, do you know whether that is the situation in the United States where they have Governmental inspection?—A. My information as to the United States system is that the Government are not responsible and do not guarantee deposits.

Q. And assume no responsibility even though they inspect?—A. Quite.

Q. I want to just ask a few questions along that line. I think you will admit, of course, that a bank is not a private corporation, but rather a quasi-public corporation, is it not?—A. I understand that to be so. I perhaps have not the full legal significance of the term, such as you would have.

Q. Well, let me put it this way. It differs from a private corporation in the sense that there are obligations to the public?—A. Yes.

Q. And I take it that the interference, if I might use that word, not suggesting anything improper—or perhaps I had better say the regulation by the Finance Department and in the Bank Act is for the purpose of insuring that that portion of its duties which has to do with the public is properly carried out?—A. Yes, so far as possible.

Q. And the Government or Parliament under the Bank Act apparently realized there is a responsibility to the public, to depositors, creditors and others?—A. I should judge so.

Q. Now, would you say, Mr. Edwards, that under those circumstances the corporation being as it is, the responsibility to the public being as it is, that the Government should do everything within its power in order to see that the corporation—that is, the bank—carries out adequately and safely their duties to the public?—A. I do.

Q. And of course the other thing follows that the failure to do those things would be the very thing which would involve the Government in any responsibility there might be?—A. I assume so, yes.

Q. Then I take it this necessarily follows; that inspection is a thing which the Government should do as an additional safeguard to see that the duties to the public are properly carried out?—A. If the duty is laid upon government, I think they should see it is carried out.

Q. I think you have admitted before that inspection is the proper safeguard and a necessary safeguard?—A. Some form of inspection.

Q. And that it is only by doing everything that is necessary that the Government can relieve itself from responsibility—if responsibility there be?—A. I think that is a fair statement.

Q. So that my suggestion, Mr. Edwards, is this; that it is rather the lack of inspection than inspection itself which will involve the Government in responsibility?—A. Yes, I think that is true too.

Q. Now, you are aware, I take it, from the pamphlet issued by the Bankers' Association—and you also know from your own knowledge—that the depositors in a bank have a fourth mortgage?—A. Yes.

Q. That may not be putting it accurately legally, but that is what the pamphlet says?—A. That is correct.

*By Mr. McMaster:*

Q. Is it in your knowledge who writes these anonymous contributions distributed amongst us on behalf of the banks?—A. No, sir, I know nothing about their authorship.

Mr. MACLEAN: Have we not a representative of the Bankers' Association here, who could perhaps tell us?

The VICE-CHAIRMAN: I think if you want to go into this matter, that might properly be done a little later.

[Mr. George Edwards.]

*By Mr. Shaw:*

Q. In any event you know from your knowledge of the Bank Act that first of all there is the responsibility to noteholders?—A. Yes.

Q. And secondly, responsibility to the Dominion Government?—A. Yes.

Q. And thirdly, responsibility to the Provincial Government?—A. Yes.

Q. And the depositors come in after these claims are satisfied?—A. Yes.

Q. Have you considered the matter of the elimination of any of these priorities, in order that the depositors may thereby rank higher upon the assets of the insolvent bank?—A. The subject of the abolishing of priorities of Government has been considered by me, but I am not sure I have all the elements necessary to a sound opinion on the subject. There may be reasons for maintaining that priority that I have not taken into account.

Q. Let me give you the reason, as I find it, because it is given by Chief Justice Coate, about 350 years ago. He said the King was busy in making wars and making peace, and he did not have time to look after his revenue, and consequently, he should be given priority, and as you can see, this is carrying that principle of the King and the right of the Dominion, and the King and the right of the Provinces into our Bank Act.—A. I think a little revision of that is due.

Q. Would any unfairness occur if these priorities of the Dominion and Provincial Governments were abolished?—A. Personally, I think not. I think they might well be abolished without any hardship to any one.

Q. Then supposing they were not abolished, Mr. Edwards, would it not be desirable and logical to carry that priority to every department of Government, I mean, to the city and the School District, and the Municipal districts, and let each one of them have priority likewise in addition to the Dominion and the Provincial Government?—A. I presume so, but I assume that the distinction is that the city is not the Crown.

Q. Quite right, but I mean in order to be logical should not that be carried further?—A. If you consider the definition of the Crown as distinct from the subject perhaps I ought not to speak too definitely about it. I have said that I can see personally no reason why this priority should not be abolished, but whether they should be extended or modified, I cannot say.

Q. Now, let us go one step further, Banks' notes have first priority on the assets?—A. Yes.

Q. And as an additional safeguard there is the Circulation Redemption Fund?—A. Yes.

Q. Provided by the banks?—A. Yes.

Q. I would like to ask you, Mr. Edwards,—this being a matter of giving further security to the depositors—how it would be if this bank Circulation Redemption Fund was first called upon to satisfy the outstanding notes of the bank and then the bank notes of insolvent banks to have first priority to the extent unpaid? Do you gather what I have reference to?—A. Yes.

Mr. HUGHES: Exhausting the Redemption Fund?

Mr. SHAW: Yes, exhausting the Redemption Fund and then let the bank notes take priority on the assets of the bank until they are satisfied in full, instead of as now, where the Circulation Redemption Fund is only called upon in the event of the assets of the bank not being sufficient?

WITNESS: The difference would be that all the contributions of all the other banks would be used to minimize that priority. I have not considered that point.

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*By Mr. Shaw:*

Q. Do you understand the question?—A. I understand your question, but I have not considered it.

Q. Perhaps some time when you have an opportunity to consider it, you will let us know?—A. Yes.

Q. Have you any other method, Mr. Edwards, than the method you have already suggested, and the suggestions we have had this morning for the further protection of depositors?—A. You mean anything more than is at present in the Act, I presume?

Q. Yes.—A. The only other thing that has occurred to me—and I mention it with some diffidence—is some provision which might insure a larger realization of double liability in the case of a bank ceasing to do business. At the present time, the double liability of the banks is recognized to be ineffective to a considerable extent, by reason of various circumstances. In the case of national banks which have failed, I have been informed on very good authority that the average realization of the double liability is about 45% of the amount for which the shareholders should be assessed.

Q. Yes, in the United States?—A. In the United States. I only say that on other authority. In Canada it is well known that the full amount of the double liability cannot be obtained; that is quite obvious. In the case of the Home Bank there will be a very large shrinkage.

*By Mr. W. F. Maclean:*

Q. What percentage?—A. I would roughly say that the double liability of a bank which has found it necessary to cease doing business and has therefore afforded opportunities for people to relieve themselves of responsibility by transferring shares and things of that kind, if they had any reason to suspect weakness, that 50 per cent is a fair estimate of the value of the double liability, 50 per cent of the amount assessable.

*By Mr. Hanson:*

Q. Will you allow me to ask a question. Do you know what the percentage was with respect to the Ontario Bank?—A. I have not the figures.

Q. I have been informed that in the case of the Bank of Yarmouth, 90% was collected, and in the Ontario Bank, 93% was collected, which enabled them to wipe out the obligations.—A. That is information I have not got.

*By Mr. Shaw:*

Q. What is your suggestion then, with regard to this double liability matter, Mr. Edwards?—A. I do not know whether it is practicable or not, but the line of my thought was that there should be some responsibility for these shares being in bona fide hands, some responsibility in that way. I do not know at all whether it could be worked out, but I was thinking in that way.

Q. Now, I want to ask you if you made any investigation of the scheme of a central or reserve bank of any kind?—A. I have not.

Q. You know from your knowledge, of course, as a man familiar with banking practice, that the Federal Reserve System, we will say in the United States, necessarily lends security to the banking system of the United States.—A. Yes. Of course, the conditions are so very different that you cannot compare them.

Q. Quite right. I am speaking now of the conditions there, and that it lends an elasticity in the granting of credits which the United States, at least, did not have before the inauguration of that system.—A. Yes.

Q. You have not considered the possibility of applying some such principle to the Canadian banking system?—A. In a sense the head office of every bank is

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a sort of Federal reserve bank for all its branches, and to the extent that that fails, the Finance Act supplements it.

Q. You would realize, of course, that the War Finance Act is an inelastic organization which deals with matters in a manner which is always more or less the same. That is, securities are provided, and money is loaned at certain rates.—A. My reading of the Finance Act leads me to the belief that the method is pretty much the same. That is to say, a bank brings its securities, the Bankers' Association committee passes upon the value and the merit of them for the purpose of advancing the money, and the advances are made. The Finance Department or the Government receive adequate collateral. That is, in substance, the Federal reserve system, as I understand it, in the United States.

Q. Of course there is no use of the discount rate for the use of stabilizing conditions?—A. Not that I know of.

Q. No effort to check inflation or deflation?—A. Not so far as I know. I do not know whether it is actually done, but the Act does not contain any suggestion of that.

Q. Because the rate of interest, of course, is necessarily a permanent rate; it is a fixed rate.—A. It is a minimum rate, is it not?

Q. The maximum rate is fixed, I think.—A. Yes, the maximum.

*By Mr. Hughes:*

Q. Mr. Shaw has given me permission to ask a question. One of his questions was as to whether the Federal Reserve Bank in the United States gave an elastic credit, whether it made the credit more elastic, and your answer was yes. I would also like to ask whether or not it makes the currency more elastic. They have an inelastic currency in the United States and I would like to ask whether the Reserve system there lends itself towards making the currency more elastic than it otherwise would be.—A. I would not be able, Mr. Hughes, to give you an opinion you could depend on in that regard; I have not studied that.

Q. Would you give me an answer to this. The currency of Canada is more elastic, that is the note issue is more elastic, and the currency is therefore more elastic than in the United States.—A. I would not like to offer an opinion on that point either.

Q. I wanted to ask one other question in connection with Mr. Shaw's examination, then. One of his questions was, if I remember correctly. "Would you approve of the change in the auditors every two years, bringing in a new auditor unfamiliar with banking principles?" and I think you said—A. I do not regard the familiarity with banks as an outstanding qualification for an auditor. I think he must have general training and business capacity.

Q. You seemed to assent to that, and you gave me the impression that you did not quite take in the meaning of the question.—A. Very often an auditor can do better work on a given proposition if he knows nothing at all about it.

Q. No auditor would be employed entirely unfamiliar with banking principles?—A. Every auditor is familiar with banking principles to the extent necessary to enable him to conduct an investigation. The chartered accountants undergo preparation of that kind.

*By Mr. Coote:*

Q. Mr. Edwards, would you say that the chief value of an auditor, a bank auditor, is in his ability to determine the value of the security which is behind each loan of the Bank?—A. The chief value of a bank auditor, or rather I should say the value of a bank auditor is in his ability to understand and co-relate everything he examines in the affairs of the bank, necessary to determine its final position, and one of these faculties which he must possess is the faculty of arriving at convictions with reference to the value of securities and loans.

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Q. You would not care to say that that is his chief value?—A. If that were the only thing an auditor could do, it would have very little value unless he could relate it to all the other work he would have in connection with the bank. The final result of an auditor's work can only be told when he assembles his conclusions along various lines, to see what result it gives him.

Q. I understand that Sir Thomas White made a statement to the effect that he did not put very much value in the ability of the ordinary auditor to determine the securities held by a bank; he would much prefer to have the benefit of a practical banker in determining the value of the security.—A. Sir Thomas told me yesterday—he was good enough to say that he intended to modify that view, and he appears before the Home Bank Commission today.

Q. That is after consultation with yourself?—A. No, not at all, he just informed me he had modified his views.

Mr. McMASTER: Sir Thomas should be prepared to learn from all quarters possible.

Mr. W. F. MACLEAN: He is learning.

*By Mr. Coote:*

Q. Are you familiar, Mr. Edwards, with the annual meetings of our chartered banks at all? That is, with the number of shareholders who attend the annual meetings?—A. Only from the reports of attendance in the published statements.

Q. Would you agree that the number attending the annual meeting is a very small percentage of the shareholders of the Bank.—A. Yes.

Q. And the audit that is conducted is now called a Shareholders' Audit?—A. Yes.

Q. Having in view that fact of such a small percentage of the shareholders attending the annual meetings where these auditors are appointed, has the ordinary small shareholder of the Bank really any say in the choosing of the auditor who is supposed to protect him?—A. He has, if he exercises his right, if he attends the meeting or gives his proxy to someone he can trust to properly represent him. He certainly has the power, and if he does not exercise it it is his own fault.

Q. Take the case of shareholders who live, say, in Western Canada; would it be reasonable to expect them to pay their expenses all the way to Montreal to attend a shareholders' meeting?—A. No, but they could be represented by some one in whom they had confidence, to speak for them.

Q. If they could find some one, yes. Would they be entitled to appear there as proxies if they were not shareholders?—A. No, I think not; they have to be shareholders themselves.

Q. Referring to a question which Mr. Shaw put to you, regarding a prior claim on the Bank of the note holders, could you give me any good reason why the note holders should have a preferred claim on the Bank over the depositors?—A. I think so; I think the reason has been given often enough, and that is that the notes are passed from hand to hand, and a man is practically obliged to take them in payment of anything, or have a certain amount in his possession.

Q. Does the law of this country compel him to take that in payment of a debt?—A. I presume not.

The VICE-CHAIRMAN: The question whether a legal offer may be made by bank notes is a matter of civil rights, which determines what is a legal offer, and this is a matter of provincial legislation.

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*By Mr. Coote:*

Q. You are not in a position to answer that question?—A. I would not care to put my opinion on record about the extent to which bank notes are legal tender, but I think it is in common practice; bank notes are accepted without any hesitation, by people in payment of debts.

Q. But you cannot give me a definite answer as to whether or not it is legal tender?—A. Without further posting myself, I would not like to answer for the moment.

Q. Can you give me any assurance, or would you say that our bank notes now are absolutely guaranteed?—A. Yes.

Q. In what manner?—A. First, by the circulation redemption fund, and secondly by the priority of the assets of the bank.

Q. The priority on the bank is the first claim, is it not?—A. The first claim.

Q. And the bank circulation fund is the next, or the shareholders' double liability is second?—A. No, I think the claim is against the assets. I do not know whether the circulation fund has had to be resorted to so far.

Q. If the assets of the bank were not sufficient to pay the notes outstanding, can you tell us whether the shareholders' double liability could be used for that or not?—A. I could not answer that question.

Q. Supposing the two together, the assets and the double liability, were not sufficient to meet the notes outstanding, then the bank circulation fund could be called upon?—A. I would say yes. You are stating a very extreme case. I do not think it ever occurred to me to consider that such a case could happen.

Q. If that were not sufficient, then who would pay the balance of the notes?—A. I could not tell you.

Mr. SPENCER: Mr. Chairman, it is quite impossible for us to get the answers of the witness.

The VICE-CHAIRMAN: I would request hon. members of the committee to listen to the evidence, otherwise it is hard for the witness to speak loud enough. At our first sitting in the other room some hon. members complained that the room was too small. We might complain that this one is a bit too large for the witness to be heard in every quarter, particularly if hon. members converse between themselves. We will ask Mr. Edwards to do his best, and I am sure the hon. members will co-operate. I would suggest that if any hon. member is desirous of questioning the witness for any length of time he should come in front of the committee so that we may hear the question and the answer.

*By Mr. Coote:*

Q. I do not think I will be very much longer. There is just one more question regarding the note issue. Is it not a fact, Mr. Edwards, that the total issue of bank notes is considerably in excess of one hundred million dollars? I have forgotten the figures.—A. I think it is, yes.

Q. And the total in the circulation redemption fund is a trifle over six million dollars?—A. Yes.

Q. Would it not add to the safety of depositors if the claim of the note holder, the prior claim of the note holder on the assets of the bank were abolished?—A. I have not considered that; I thought the theory had been so well advocated that it did not occur to me to consider the possibilities of that.

Q. That is, advocated from the note holders' standpoint, but not from the standpoint of the depositors?—A. Well, I have been unable to see why the note holders' priority should be abolished.

Q. I take it that you are not a depositor in the Home Bank; you may have been a note holder.—A. I do not think I was a note holder.

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Q. I am considering this question from the viewpoint of the depositor who deposited in the Home Bank in a locality in which the Home Bank was the only bank. I think it is only fair to say that it was nearly the only place that was available really for savings. Can you state from your experience, Mr. Edwards, whether a bank is in a sound position, or rather whether an auditor can state that a bank is in a sound position when he has only examined the head office of that bank? Having in view a case where a bank has, say at least 40 per cent of its branches located 1,000 miles or more from its head office.—

A. My view is this, that with a personal examination of the head office of the bank and the few principal branches, he is entitled to place pretty fair reliance on the information that reaches the head office from the managers of the branches, from the inspectors and the men that are sent around to obtain a knowledge of the bank's outside business. And he could, by inspecting the chief office, and analyzing that information that comes to him, and determining its quality, see pretty fairly what the position of the bank is.

Q. Why could he not tell the position of the head office by simply questioning the men who inspect it?—A. That would be a part of his work. The head offices are not necessarily included in the inspection system. They may be in some cases, but the inspection system is really inspection of the operating branches of a bank.

Q. Does not the shareholders' auditor as thoroughly inspect a head office as he does the branches?—A. Oh, yes, but I was referring to the internal system of inspection.

Q. Only internal?—A. Quite.

Q. Is that because such a large proportion of loans is made at the head office?—A. You must distinguish. At the head office there is likely to be the largest branch of the system. In Montreal, for instance, there was the head office of the Merchants Bank, and the Montreal office of the Merchants Bank. The head office did no business with the public. The Montreal office did the business with the public. The Montreal office is therefore a branch, not the head office. The head office does not come in contact with the public; only its branches.

*By Mr. Hanson:*

Q. Mr. Shaw questioned you with respect to the relationship between securities and deposits. I should like to know from you, having regard to your study of the Federal system as to what security there will be by reason of the system itself.

Mr. IRVINE: I rise to a point of order. Mr. Coote was getting information from the witness.

*By Mr. Coote:*

Q. In regard to the statement which you made to Mr. Shaw as to the position which the head offices of our banks occupy in relation to the Federal Reserve Bank—A. They perform the functions to some extent, that is, the distribution of money where it would be required.

Q. Are the loans at the head offices of those banks larger than the deposits? Is that not a fact?—A. It is true, very largely.

Q. Is that the case in regard to the Federal Reserve Banks? Do the Federal Reserve Banks loan more money to the branches than they receive from them, or do they not? Do you know?—A. I cannot say. I think necessarily that it must be that the remote banks in the United States under the Federal Reserve System obtain money from central banks as they need it for loaning purposes.

*By Mr. Marler:*

Q. Would Mr. Coote permit me to interject a question? I understand you to say, Mr. Edwards, that the loans from the head office were larger than the

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deposits?—A. The loans at the head office are larger than the deposits? The head office makes no loans and accepts no deposits.

Q. Taking an analogous case like the Merchants Bank of Canada, the loans in Montreal would be largely deposits in the Montreal office. That is quite distinct from the head office. The head office does not make any loans at all?—A. Quite.

*By Mr. Coote:*

Q. How would you explain the large deposits at the head office if they do not make any loans? Or is this a play on words? The head office and the chief office?—A. I am considering how to get the idea across. The head office makes no loans; the head office is the controlling body, and if anything doubtful arises in the administration of a bank it is likely to drift into the head office or come under the immediate notice of the head office and be found at the nearest branch to the head office; that is the branch operating under the same roof. The policy of a bank would be to keep the outside business in as healthy a condition as possible, and to keep any doubtful matters closely under their own supervision.

Q. They keep very careful supervision over the branch offices?—A. As a rule they do; there have been exceptions, of course.

Q. They place a limit on the amount which a branch manager can loan, I presume?—A. Yes.

Q. That amount would be fairly small in the case of small branches? Or are you familiar with it?—A. It may be large or small. A large industry near a branch would probably negotiate a large loan; it does not always follow, of course.

Q. The loans which have wrecked some of our banks in the past have been large loans at the head office of the bank, is that a fact?—A. Yes, I think so.

Q. Would it then be some safeguard of the depositors if the amount of money which a bank might loan to any customers were limited to a percentage of the paid-up capital of that bank?—A. Personally, I do not think that is a practicable limitation. It would hamper some very legitimate and proper banking operations.

Q. If it were practicable, would it not assist in safeguarding the depositors?—A. In this way, it would distribute the risks, and therefore the losses would be smaller when they did occur.

Q. They would not be very liable to occur, would they?—A. If the bank had its risks more widely distributed, the losses would be more numerous, but not so important.

Q. May I ask you a question in regard to the Banque Nationale?—A. I have said that I am not familiar with the Banque Nationale, excepting from the information I have had access to in the Department.

Q. Possibly you can answer this question from that. Is it not a fact that a loan of possibly twice the capital of the Banque Nationale was made to one industrial concern?—A. I understand so, yes.

Q. If we had such a clause in the Bank Act as I am suggesting, to limit the power of a bank in regard to any one loan; do you think a loan of that size would have been contributed by any of the banks to this industrial concern?—A. In the light of present knowledge, I think not; but it is pretty hard to say what the circumstances were that prompted the Banque Nationale to give such a loan to that industry.

Q. If it were not permitted by law to make a loan of that size, it would never have occurred?—A. It was an exceedingly imprudent thing to make an advance of that size, considering the extent of its resources.

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Q. Is it not fair to suggest that if such a limitation were inserted in the Bank Act, it might prevent some bank losses, if not failure?—A. It might not be a real protection, because if a bank was determined, for instance, to support an industry, that industry conceivably could be split up into several subsidiary companies, and each have a portion of the loan, and perhaps disguise it, and perhaps make the situation worse.

Q. You think it could make it worse?

*By Mr. McMaster:*

Q. Mr. Edwards, is it, or is not, consonant with good banking that any one loan should only be of a certain moderate size in proportion to the capital and reserve of the bank?—A. Oh certainly.

Q. Will you explain to us why, if that is consonant with good banking, it would be impracticable to have it embodied in the law?—A. Because any particular limit you might fix in the law might work hardship. You cannot decide on the absolute merits of a case before having the facts before you; and the directors and the general manager are the proper judges as to those circumstances.

*By Mr. Coote:*

Q. Some members ask, on whom would this hardship be worked? Would it work a hardship on the banks? —A. On a legitimate industry.

Mr. W. F. MACLEAN: Would it be on the poor depositors?

*By Mr. Coote:*

Q. The banks say that it is only their business to advance money to a concern for its current operations, not really to furnish it with funds to build up the industry?—A. I should not think that a bank should furnish funds to any company for the purpose of investing on capital account, or anything of that kind; it should be for current purposes only.

Q. Do you really think it is sound banking practice for any bank to advance more than its paid-up capital, to risk it in any one loan?—A. No, I do not.

Q. Do you see any reason why this Committee should not put that in the Bank Act?—A. The matter was considered last session. I believe there is a clause for the purpose of limiting that. In other words, there has to be a certain voice of the directors before such a thing can be done.

Q. We have already found out that the directors do not direct. I think that has been freely admitted?—A. I think you must be thinking of conditions previous to the passing of the Act last session.

Q. No, I remember quite well the amendment passed last session?—A. There is no evidence during the past twelve months that directors are not directing, Mr. Coote.

Q. In your opinion, the directors we have now are really directing those banks?—A. I think there is a larger realization of their responsibility, and I think they are more earnestly applying themselves to the task of directing their banks.

Q. Do you think that the director of any bank which has 40 per cent of its loans outside of Canada can really be well acquainted with the true condition of the bank?—A. I think he may, if his means of information are sufficient, and if the information can be made sufficient.

Q. On whom is he relying for this information?—A. He will rely upon his general manager.

Q. The general manager furnishes him with the fullest information?—A. And collateral information, of course; reports, and he may have personal knowledge. It is pretty hard to say just what considerations would enter into

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the mind of the director, or how far his knowledge goes with reference to transactions of that kind.

Q. What possible knowledge would he have of loans, for instance, in Cuba and other West Indian points?—A. Well, these loans are all reported upon by the managers of the Cuban branches, by inspectors who are going over the accounts all the time; and directors very frequently take trips there and investigate conditions on the ground. I have known that to be done.

Q. Yes, Mr. Edwards, but you would not surely try to lead this Committee to believe that the bulk of directors, or all of the directors, can make those trips?—A. I do not know why they cannot. I do not suppose they do, but I suspect that certain directors will make the trips, and the other directors will place a certain reliance on them.

Q. There are certain directors who would be principal directors, and the others would be lesser directors?—A. They may have directors more fitted for a certain duty than other directors.

Q. The duty of directors is to safeguard the interests of the bank, is it not?—A. Yes.

Q. Do you see any objection to directors, each year, furnishing a sound statement to the shareholders at the annual meeting, stating what their opinion is in regard to the affairs of the bank?—A. I think that would be very desirable, if they did. I think they subscribe to the report. I think they are committed already in the procedure as it stands now.

Q. It seems to me, Mr. Edwards, that as it stands now, you are asking a director who possibly lives in Winnipeg to certify to something he knows nothing about, except by hearsay?—A. If he agrees to accept that responsibility, Mr. Coote, I do not know why he should not. That is his privilege as a director of the bank. It must be assumed that he is doing it intelligently, and sincerely, whatever he does.

Q. Is that not assuming a good deal? Let me ask you another question. Would you, Mr. Edwards, as a bank auditor, say that you could judge the true condition of affairs of any bank carrying on 40 per cent of its business outside of Canada, if you only examined its chief office or head office?—A. My answer to that would be, it would depend on what information I could obtain with reference to the business outside of Canada. If the information was sufficient to satisfy me, I could.

Q. One more question with regard to the liability of directors. Would it not be quite proper to increase the financial liabilities of directors over that which is now provided in this Act?—A. Well, directors, of course, are already under the Act under certain liabilities that do not attach to the ordinary shareholder. As a rule directors are amongst the largest shareholders of the banks, and if anything goes wrong with it, they would be the largest individual losers. The double liability provisions will fall most heavily upon them. It is natural, I think, that the small shareholder should trust the large shareholder who might happen to be a director, and who is put in that position because he believes his individual interests are great enough to permit him to look after the affairs of the bank.

Q. A kind of blissful trust?—A. You have to trust somebody. Somebody has to be trusted in this world.

Q. Would it not be putting real teeth in the Bank Act if we stated that any director's property to the extent of 50 per cent of his estate would be turned over to assist in the liquidation of the bank if it failed?—A. I cannot offer any opinion as to that. If a director does his duty honestly, sincerely and intelligently, I do not know at the moment why he should be penalized, because after having done that, he happens to be a director.

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Hon. Mr. ROBB: What would you do in a case of a director who did not have any estate?

Mr. COOTE: He would be just in the same position as he is in now.

*By Mr. Coote:*

Q. At the present time, is there anybody besides the Minister of Finance and his officers who know anything about the true condition of the banks? I will change that question: do you think that the public, or the depositors, have any opportunity of knowing?—A. I think that as a rule the statements made by the banks are entitled to be depended upon.

Q. Would you, Mr. Edwards, really ask the public to take that statement at its face value?—A. The statement I have just made?

Q. Yes.—A. I do not know why not. You cannot do business at all unless you trust somebody, unless you give some value to the statements that are made by responsible people, or by people you believe in.

The last statement issued by the Home Bank did not disclose to the public that it was not in a sound condition.—A. That is an exception which is said sometimes to prove the rule.

Q. Yes, but is that the only assurance the public can have that that is the rule?—A. Well, under the present Act they will have the assurance of trained auditors, two of them acting independently, and other safeguards which are provided by the Act. I think that is a very great advantage.

Q. I think you admitted yesterday that some system of Government inspection might be wise?—A. As a logical sequence of what is there, yes.

Q. After the Government has made that inspection is there any reason why the Minister of Finance should give the Parliament each year a statement that these banks have been inspected?—A. No. I think he could do that.

Q. And further, that in his opinion these banks are entitled to the confidence of the public, or that they are not?—A. I do not know how far the Minister would be disposed to go into that, but if I were called upon I would not advise him hastily in the matter. I would not answer that question without some thought—as to how far the Minister might go.

Q. From your experience, Mr. Edwards, in examining these banks, could you tell the Committee whether it is or is not a fact that these banks have many branches which are not paying expenses?—A. Every bank has some branches which are not paying expenses. As a rule, where a branch is a consistent loser, the bank will close it up. They are closing branches frequently, and opening others.

I understand our banks opened about nine hundred new branches in the year 1919.

Q. Is it your opinion that the majority of these branches have shown an operating loss since they were opened?—A. To my mind it represents a desire to give service, if it can be given without loss, and having ascertained it could not be given without a loss there have been withdrawals in certain cases. That indicates good business judgment.

Q. Is it the chief desire of these banks to give service or make profit?—A. Both. They must give service in order to make a profit; they cannot make profits without giving service.

Q. But they are more eager to make profits than to give service?—A. They must make profits, of course.

*By Mr. Maclean:*

Q. You have spoken of priorities, and amongst these you said were the bank notes, and you also referred to the National Reserve System in the

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United States, the American system. Will you say that any man who has a note that he has received from a bank in the United States would have to go to another place to get his money, even when the bank fails?

Mr. HUGHES: Of course, they are guaranteed by Government bonds.

*By Mr. Maclean:*

Q. No, they are Government notes, and once the public has a Government note from the bank they do not have to run to somebody else. Is that the case?—A. No.

Q. What is the case?—A. The case is that the bank deposits security with the Government and receives in return therefor the privilege of issuing their own notes, which on the face are national bank notes.

Q. Is that the case in Canada?—A. You know what the situation is in Canada. It is priority of a bank's assets, and there is a circulation fund to supplement it. It is equally as effective as the other.

Q. No, it is not. They give it a discount and no one will take the bank's notes when the failure occurs.—A. All notes of a failed bank are worth more than those of a solvent bank, because they carry interest.

Q. Would there be any harm if we had the banks in this country doing business with national notes which would not be questioned under any condition?—A. I do not know that it would be better or worse. It is a matter for consideration.

Q. You say that the Canadian system is equally as good as the American system?—A. So far as the security of the note-holders is concerned, yes.

*By Mr. Hanson:*

Q. In what manner does the Federal Reserve System of the United States render additional security to the depositors of National Banks?—A. If a member bank requires more money it offers to hypothecate the securities for loans already made to the Federal Bank, and having hypothecated them, they obtain money on security.

Q. A member bank simply borrows from the Federal Reserve?—A. Yes.

Q. That does not give any additional security to depositors?—A. No, in fact it tends the other way.

*By Mr. Hughes:*

Q. With regard to the note issues of the United States, when a national bank purchases Government bonds, they lodge these bonds with the Treasury Department and they are allowed to issue their own notes up to 90 per cent of the value of these bonds?—A. That is correct.

*By Mr. Irvine:*

Q. There were two millions dollars, I understand, Mr. Edwards, worth of notes out in the Home Bank outstanding?—A. Yes.

Q. And this was made up out of assets of the bank when the bank failed?—A. Yes.

Q. In the event of the Redemption fund being called upon to pay that two million dollars, would not that have protected the present depositors to that extent?—A. I do not know. The banks which contribute to the circulation fund would become creditors of the insolvent bank and rank along with the depositors which would not, I think, improve the position of the depositors. In other words, if the contributions to the circulation fund were taken to retire their notes they would automatically become creditors of the insolvent bank, and would rank *pari passu* with the depositors.

[Mr. George Edwards.]



## APPENDIX No. 1

*By Mr. Shaw:*

Q. Surely it would improve the position of the depositors?—A. I do not know—

*By Mr. Irvine:*

Q. What would you do with the two million dollars?

*By Mr. Shaw:*

Q. You would have another two million dollars to add to the general fund?  
—A. Yes. It is too much for my mental calculation, Mr. Shaw.

*By Mr. Ladner:*

Q. Do you know the operation of the Finance Act of 1914 for re-discounting?—A. Generally.

Q. Have the banks taken any greater advantage of it since the last session of Parliament—greater than they did before?—A. I could not tell you that. I have not looked that up.

Q. I made this statement because I remember seeing something in one of the reports of the bank that they felt more disposed now to take advantage of the re-discounting facilities under the Finance Act, than they did prior to the revision. Have you any knowledge of that question?—A. I have no doubt of it.

Q. Is there any shifting of deposits, to your knowledge, since the failure of the Home Banks, from the smaller banks to the larger banks, or from the smaller banks to Government securities throughout the country?—A. I have heard that is the case, but I have not confirmed it myself.

Q. Have you made any examination, prior to coming here, of the returns by the banks under the Bank Act?—A. Not quite recently, no.

Q. Do you know that at the present time approximately 70 per cent of all bank deposits are in the four largest banks?—A. I believe that is the case.

Q. And 30 per cent is distributed amongst ten other banks?—A. Yes.

Q. Do you know that in 1890 the figures were exactly reversed?—A. There has been a tendency towards an increase of deposits in the larger banks.

Q. In view of the failure of the Home Bank and the concern of the public, do you think that that tendency will continue?—A. I cannot say, but the process of reduction in the number of banks has been going on. There are only fourteen now, where there were seventeen last year, but whether that will continue or not, I do not know.

Q. Then taking the experience of the last thirty-three years as an index, and taking present day events as you have seen them, with mergers and the failure of the Home Bank, do you think it possible for the smaller banks to reduce their overhead in the future?—A. I think it is a very serious question. The expense element since the war has not come down.

Q. I am advised by a man skilled in finance in a practical way, that with the establishment of branches it is difficult for any of the banks to materially reduce their overhead. Have you any information to the contrary?—A. I have not, at the moment.

Q. Do you agree with that statement?—A. I think it is a very probable statement.

Q. Then, if you continue the transfer of the deposits to the larger banks by reason of the shaken confidence of the people, do you not think that some measure is essential at the present time to maintain the stability of the smaller banks in order to retain them in the field of competition?—A. I think it is very desirable, if they are sound.

[Mr. George Edwards.]

Q. Are the big fellows sound?—A. Yes, of course if a bank gets into a precarious condition, other steps may be necessary.

Q. Most of us believe quite sincerely that the other banks are in a fairly sound position?—A. I think so, too.

Q. In view of that tendency which is indicated also by the number of banks being reduced, we know the figures of the past, but just before I come to a conclusion, I wish to ask, in view of the increasing capital, your opinion on that.—The capital paid up in all the banks in 1890—all these figures are as at 31st December—was sixty million dollars, in 1900, sixty-seven million dollars, and 1910, one hundred million dollars, and 1923, one hundred and twenty-three million dollars, or an increase during the thirty-three years from 1890 of 84 per cent. Now, the bank clearings have increased during that time from 1893—I have not the 1890 figures—

Mr. MACLEAN: Is that capital or reserve?

*By Mr. Ladner:*

Q. I have not the figures for the reserve. That is capital. The volume of business has increased from nine hundred million in 1893 to seven and one-half billion dollars in 1923. Now, if that tendency continues, do you think there is sufficient capital to effectively serve the country in a banking way, if this country develops?—A. I think the capital of the banks should be increased.

Q. Now then, do you think a measure such as guaranteeing a certain class of savings accounts by creating a special account as I propose, of \$3,000, for all of the banks on the principle of insurance would be effective in stabilizing the confidence of the people in all of the banks, small and large, and creating an insurance fund and building it up on an insurance principle?—A. I think there is plenty of experience to guide you in that. It has not succeeded so far.

Q. Can you name me one precedent anywhere in the world?—A. I think it is pretty generally known that they tried to do it down in Oklahoma.

Q. That was a general guarantee of all deposits, and I hold that it is impracticable—to guarantee all the deposits is out of the question. What I am saying is to consider a deposit of \$3,000 or under, leaving out existing banking institutions and business as it stands. I do not believe in Parliament interfering with the bankers any more than absolutely essential,—but creating a new class of accounts so that its depositors may go there, and they will be told that they will not get three per cent, perhaps, but get 2.7, or whatever it may be, and in that way contribute a part to the premium and build up insurance funds, while the banks would do the same. Do you think that a scheme like that will work out, and will tend to stabilize the confidence of the public in our smaller institutions.

Mr. MARLER: Does that rise out of this question on the reference?

Mr. LADNER: This all pertains to the Federal Reserve System, because if we have a Federal Reserve System—

The VICE-CHAIRMAN: Yes, but the question of a Federal Reserve System is now under advisement by the Chair in respect to a point of order.

Mr. LADNER: This also relates to the means of protecting depositors.

The VICE-CHAIRMAN: I quite agree with the question insofar as it relates to greater safety to depositors being in order, except that we have decided that we shall first examine the witness on the question of bank inspection. Therefore it is probably a little premature.

Mr. LADNER: I have been here for an hour and I have not noticed any very clear relationship of the questions in regard to the examination as to bank inspection.

[Mr. George Edwards.]



## APPENDIX No. 1

Mr. MARLER: You have a resolution before this Committee now.

Mr. LADNER: I have been leading up to the point of my whole matter. We might as well get it, because I am going to be persistent in this.

The VICE-CHAIRMAN: I do not believe, Mr. Ladner, that there is any honourable Member who is desirous of preventing you from getting to that point. It is only a question of procedure. If you would kindly put that question, we will see whether it is in order.

Mr. LADNER: I have put it.

The VICE-CHAIRMAN: Shall we have the question read or will you put it again?

Mr. LADNER: Perhaps we could have the reporter read it, as we do in Court sometimes.

The VICE-CHAIRMAN: The reporter then will read the question.

Whereupon the reporter at the request of the Vice-Chairman read the question under discussion in part as follows: "That was a general guarantee of all the deposits, and I hold that it is impracticable—to guarantee all the deposits; it is out of the question. What I am saying, is to consider a deposit of \$3,000 and under, leaving out existing banking institutions and business at it stands—I do not believe in Parliament interfering with the bankers any more than absolutely essential—but creating a new class of account so that its depositors may go there and they will be told that they will not get 3 per cent, perhaps, but get 2.7 or whatever it may be—"

The VICE-CHAIRMAN: Will Mr. Ladner admit that another question a bit shorter and more to the point would be better?

Mr. MARLER: I make this particular point, that that question, being answered, is subject to a cross-examination to the most unlimited extent, and it is comprised in this particular resolution which is before this Committee. I think he should defer it until that resolution is taken up.

Mr. LADNER: On the other hand it relates to the protection of depositors.

Mr. MARLER: Certainly, but this is not the proper place to bring it up.

The VICE-CHAIRMAN: I would imagine, Mr. Ladner, that we will make more progress if we examine the witness on the question of bank inspection, and then we shall come to the other matter which is more particularly covered by your resolution.

Mr. LADNER: When I came in there was a general discussion on the Federal Reserve system, there were all kinds of questions, and I thought it would be sort of intelligent to proceed with mine. However, I will ask it later on.

The VICE-CHAIRMAN: I may say I let the questions be put because I thought they were very incidental. At any rate, if you will put the question—

Mr. HEALY: Not to interrupt, but I understood from the witness yesterday that the question of Government bank inspection, as far as his ability goes, was closed; that he was in favour of it and would recommend it to the Government.

Mr. W. F. MACLEAN: And the Minister was here and acquiesced.

Mr. HEALEY: Should we not take it for granted that he has given us an expert opinion on that? The bank inspection is closed, so why not take up Mr. Ladner's point.

Hon. Mr. STEVENS: I rise to a point of order. I sat here the other day for a couple of hours, and I have been sitting here this morning for an hour and forty minutes, and I have listened with interest and patience to all the questions, and to say that we are prevented from asking the witness another question on

[Mr. George Edwards.]



bank inspection would be most unfair. I submit to you, sir, that we should not be prevented from asking further questions on that point.

Mr. HEALY: That is not suggested.

Hon. Mr. STEVENS: Mr. Healy said he understood the thing was closed.

Mr. HEALY: As far as his own opinion goes, but I did not say you could not ask another question.

Hon. Mr. STEVENS: I have been waiting for a chance to ask Mr. Edwards a few questions; I have waited a long time, and I will wait a week if necessary, but I do ask for the opportunity of asking two or three questions.

The VICE-CHAIRMAN: Mr. Ladner, will you proceed?

Mr. LADNER: I have no questions on bank inspection; I have five questions on double liability, but that is a separate matter altogether.

The VICE-CHAIRMAN: Very well; Mr. Marler, have you some questions?

*By Mr. Marler:*

Q. Just one question, Mr. Edwards. In the course of Mr. Coote's examination, the question came up regarding the question of loans made by branches, loans made by distant branches and loans made by principal branches. That is to say, branches where the head office itself may be situated.—A. Yes.

Q. Now the question also came up regarding the power of branch managers to make loans; I think you remember that.—A. Yes.

Q. Mr. Coote did not pursue that subject at that particular moment. What I want to bring out before this committee and what I want to ask is this. Is it not the case that in any branch a loan of equal size can be made or negotiated just exactly the same as if that loan were applied for in one of the large city branches?—A. I think that is so.

Q. In other words, the branch manager may be restricted in making a loan himself without reference to head office, but a reference being made to the head office, that branch can get any amount it wants for legitimate purposes in precisely the same way as a principal branch could get it from the head office, in just the same manner? In other words, there is no distinction whatever between loans by country branches and loans in so-called head office branches.

Mr. SALES: You do not mean for any amount?

Mr. MARLER: Any amount that could be got in any branch can be procured in a country branch for a legitimate purpose.

Mr. HEALEY: That is perfectly right.

Mr. SALES: We often hear in the West that they have not any money; they are not loaning.

Mr. MARLER: They have not any money to loan?

Mr. SALES: Yes.

Mr. MARLER: I am astounded to hear that, because I have always understood that providing security was put up at a branch, that branch has equal facility with any other branch.

Mr. SALES: What do you mean by "facility?"

Mr. HEALEY: I would suggest that we put Mr. Marler in the witness box.

Mr. MARLER: I am quite prepared to do that; I have no objections.

The VICE-CHAIRMAN: If it is the desire of the committee that Mr. Marler be asked a question, I am quite willing to accede to it, but I think we will make more progress if Mr. Marler goes on with Mr. Edwards. We have Sir William Stavert who has been waiting since yesterday and again to-day, and I would suggest that we go on with him.

[Mr. George Edwards.]

## APPENDIX No. 1

*By Mr. Marler:*

Q. In your opinion, Mr. Edwards, are the facilities offered at the smaller branches equal to the facilities afforded at so-called head office branches?—A. Yes.

Mr. COOTE: Just what do you mean by the word “facilities?”

Mr. MARLER: I mean access to the money of that particular bank.

Q. In other words, if a bank has so much money to lend, any branch has equal facilities for securing a loan from that money as a so-called head office branch?—A. Yes.

Mr. HUGHES: In practice it does not work out.

*By Mr. Cahill:*

Q. I would like to ask Mr. Edwards if he believes that his answer to Mr. Marler covers the point, by saying, “Yes”. Does he believe that the facilities in the branch bank say at Okotoks, Alberta, are the same as those of the head office of the bank at Montreal, or that the manager of the smaller bank has the same power as the manager of the bank in Montreal who is immediately under the supervision of the head office, of the general manager, and of the Board of Directors? Does he think the man in Alberta has the same facility for getting loans through the Bank of Montreal as the man applying for them in the city of Montreal office, which is immediately under the supervision of the head office.—A. Obviously the distance would require a little time to put it through, but I think if there were an industry say in Montreal that was borrowing money from one of the banks, and that industry should find it expedient to remove its whole plant and machinery to Okotoks, they could transact their business in the same way as they could in Montreal.

Q. That is exactly the point. Where there is an opening at Okotoks, instead of a local man there developing it, it is developed by a man from Montreal. That is the whole point of the banking situation.—A. I will put it the other way, sir. If there were an industry in Okotoks which had a basis for credit and required to borrow money from the bank, it could borrow money from the banks equally as well as if it were located in Montreal; if it were moved to Montreal it could not have any better facilities for borrowing money.

Q. Do you think the recommendation of the bank manager at Okotoks for a considerable loan would receive the same consideration at head office that would be given a recommendation from the general manager of the principal branch in Montreal who is in a position to walk into the office of the general manager and state his case to him?—A. I think the same investigation would be made and the same consideration given to it.

The VICE-CHAIRMAN: Mr. Good, have you some questions to ask?

Mr. GOOD: I think in view of the time; that Mr. Edwards will be back another day, I will reserve my questions till later.

The VICE-CHAIRMAN: Very well. Now, Mr. Stevens.

*By Hon. Mr. Stevens:*

Q. I will try to be as brief as I can, in just a few pointed questions. Mr. Edwards, you have had a good deal of experience in general auditing as well as bank auditing, and in regard to the matter of the opportunity of shareholders of a bank attending annual meetings; is there any difference between the position of the shareholders of a bank and those of any other corporation in respect to the attendance at annual meetings and participating in control is concerned.—A. He has the same statutory privileges.



Q. And the same general opportunity as the shareholder of any large corporation?—A. I think so.

Q. In your experience as an auditor, the question of reports from branch offices comes very prominently into this discussion, could you tell the committee if, in your experience, the reports of branch managers are in the main and generally proven to be trustworthy and satisfactory.—A. I think so. I think in the mass they are satisfactory.

Q. Have you in mind any specific cases without necessarily naming them, but in a general way any specific cases where larger losses have occurred to a bank through false returns or faulty returns and reports from branch managers?—A. I do not know of them. That is remote.

Q. Yes. That is outside principal offices.—A. I do not know of them.

Q. I might put the next question in the form that is usually followed, that is in the form of a statement, and ask you to agree with it, but I will not follow a bad practice. Turning to clause 56, subsection 10, provides for reports. I will not read the clause because it is unnecessary to do so. It provides that an auditor shall report certain things to directors and so on, including loans exceeding 1 per cent and so on. If that report were made obligatory to the Minister of Finance—I asked this question the other day and I do not think it was quite clearly demonstrated—if this were made obligatory that these reports should be made to the Minister of Finance as well as to the directors and the general manager, do you think it would afford to the public increased protection?—A. I do, in this way, that if the Minister was aware of the action of the auditors, he could supplement that action by ascertaining and calling upon the auditors from time to time to report to him as to what the directors had done in respect to these matters to which their attention was called, and the whole tendency would be good. It would tend to increase the confidence of the public by the knowledge that these matters were being looked after in that way.

Q. Short of intentional and fraudulent action on the part of the directors and general managers, in your opinion does the present Bank Act as renewed last year offer to the depositors and the public a maximum of security and protection, short of deliberate fraud.—A. I have already said that I think it could be supplemented in that way, by a superimposed inspection.

Q. With that one addition?—A. With that one addition.

Q. Just a further question in regard to that. Having in mind the Government inspection of head offices, if a bank directorate or management were desirous of making questionable loans such as have proven in the past to bring about a failure, or almost a failure; if they desired to make such loans in the face of Government inspection, would it not be possible for them to make these loans through the medium of some branch office not closely identified with the central office, and thus escape the inspection, the Government inspection?—A. They might escape direct inspection by the Government officer, but they would come under the system of inspection followed by the bank and the procedure of the banks, the inspection system would be a matter of scrutiny and inspection by the Government auditor. I think the Government auditor would get it, but in another way.

Q. Of the two suggestions, namely a direct inspection by the Government examiners or the improvement or extension of clause 10 in the way of reports, which do you consider would give the best protection to the public and to the depositors?—A. I think the extension of the present system would afford by far the best protection to the public of the two methods.

Q. That is in the matter of reports to the Minister, and strengthening clause 10 along the line suggested?—A. Yes, keeping the Minister supplied with full information, and enabling him to act, with an officer to act for him and to take the initiative in some cases.



## APPENDIX No. 1

Q. In regard to the question of note circulation, priority of claim, does not the confidence of the public at large in our currency, largely bank currency of course, depend upon the soundness of the security of the note, the bank note?—

A. Yes.

Q. And the security behind the bank note at the present time is of a character, generally speaking, to inspire that confidence?—A. Yes. I believe it is stated that no note holders ever lost any money by the failure of a bank.

Q. Exactly. If, as suggested, this priority position of notes over bank assets and so forth supported by the note redemption fund were changed, would it have a tendency or would it not to lessen the public confidence in currency?—

A. I think it would lessen the public confidence, yes.

*By Mr. W. F. Maclean:*

Q. In national currency?—A. No, bank currency.

Mr. IRVINE: I did not quite get your question there; do you mean the security or the confidence of the people of Canada depends on that which is behind the bank notes themselves, or the bank loans. Which do you mean?

*By Hon. Mr. Stevens:*

Q. I am talking about the Canadian bank currency. I do not want to enter into a discussion, but I will put the question again, and I am sure the witness will answer it again. I asked: Does not the confidence in the country's currency in Canada—largely made up of bank notes—depend largely upon the soundness of the security behind that circulation, that note circulation.—A. Yes.

Q. Now, I repeat my second question. If, as suggested, the priority claim of the holder of the note upon the assets of the bank, plus the note redemption fund which forms the security of our currency—if that is interfered with and that priority position lessened or lowered, would it not have a tendency to disturb public confidence in the country's currency?—A. In the bank's currency, yes.

Q. Then I want to ask just one final question, which is what I was leading up to. In your experience as an auditor of business generally, is it or is it not one of the most necessary things for the successful carrying on of business that a country should have a sound currency or a currency in which public confidence is reposed?—A. Yes.

Q. And an interference with that confidence would have a serious effect upon business generally?—A. Of course, if confidence were impaired in the bank currency for that reason, the Government currency would take its place.

Q. Excuse me, you did not, I think, quite catch my point. I am not discussing the question at all of supplanting the present system at all, I am talking about the present system of currency. I say if the public confidence were disturbed in our bank currency, would it not have an adverse effect upon the business of the country generally?—A. People who use currency could always demand Dominion paper, Government paper, instead of the other, and probably in the course of time the bank currency would disappear and Government currency take its place.

Q. But if that process were introduced during that period of time where the change you mention was being brought about, would it not have a harassing effect on business generally?—A. It might disturb business, yes; I think it would have some disturbance, undoubtedly. I could not measure it, of course.

Q. I have just one more question. We were on this question of the currency, and your last answer in regard to the possible change to Dominion notes. In your opinion—again I appeal to you as an expert of wide experience in business and in banking—has there come to your notice any valid reason why there should be a change from the Canadian system of currency, bank currency and Dominion notes as it is to-day?—A. Not from the public standpoint; certainly not. It is serving its purpose.

[Mr. George Edwards.]

Q. And there seems to be no call for a change, from the standpoint of public interest and public welfare?—A. Not that I can see.

*By Mr. Hughes:*

Q. May I ask a question arising out of the question asked by Mr. Marler and the answer of the witness. I think the question was, "Are banks as willing to make loans at branches as they are at the head office or at the chief office?" and the answer was, "Yes." Now, I would ask the witness if he knows that the general instructions given to branch managers at ordinary branches are to the effect that their business is to get deposits and not to make loans?—A. I do not know that.

Q. The witness, without knowing that, gave an answer to Mr. Marler to the effect that the branches were as willing to make loans as the chief officer and the head office. He said "facilities", but I do not know what "facilities" means. The witness has said that he is not aware that the general policy that branch managers, particularly at the smaller branches, are supposed to follow under general instructions from head office, is that the money can be loaned only once, the head office can take care of that itself, and the business of the smaller branches is to get deposits?—A. I think I answered that, that I did not know it.

The VICE-CHAIRMAN: Gentlemen, have you any other questions to put to Mr. Edwards? If so, we will request Mr. Edwards to be present at our next sitting. When shall we meet again? I would suggest to the committee that as there will be a division to-night, or probably in the small hours of the morning it would hardly be possible for the committee to sit to-morrow morning. I would therefore suggest to the committee that we sit on Tuesday next at 11 o'clock, if that is satisfactory.

Mr. McQUARRIE: Could we not sit to-night?

The VICE-CHAIRMAN: I understand the Leader of the Opposition is not yet through with his speech, and some hon. members would surely like to listen to him, and also to the important speeches which will be delivered this afternoon and this evening. It is pretty hard to say at what exact moment some hon. members may be interested in the speech which is being delivered in the House, particularly in the closing hours of the debate. I therefore would suggest that we would be almost as well advanced to adjourn until Tuesday next at 11 o'clock.

Mr. SHAW: Why not meet at 2 o'clock? I understand that Sir William Stavert is here. We might be able to finish with him between 2 and 3.

The VICE-CHAIRMAN: I have no objection if it is stated that we sit only until 3 o'clock.

Mr. IRVINE: I move that this committee sit from 2 to 3 this afternoon, Mr. Chairman.

The VICE-CHAIRMAN: Will it be understood that our witness will be Sir William Stavert, and Mr. Edwards will always be available? Then we will adjourn till 2 o'clock this afternoon.

The witness retired.

The committee adjourned.

The Committee resumed at 2 p.m., Mr. Vien in the Chair.

The VICE-CHAIRMAN: Sir William Stavert, of Montreal, financier, is the witness this afternoon.

Sir WILLIAM E. STAVERT called.

The VICE-CHAIRMAN: Sir William, I would like you to give to the committee your qualifications and experience so as to give the committee an idea of the experience you have had in financial matters and in banking and commerce.

[Mr. George Edwards.]



## APPENDIX No. 1

The WITNESS: As to my qualifications, Mr. Chairman, and gentlemen, it is for you to judge; but I may state what my experiences have been. I commenced in the banking business very early in life, first in a bank controlled by my father in Prince Edward Island; next in the Merchants Bank of Halifax, now the Royal Bank of Canada; then in the Bank of Nova Scotia. Subsequently I was general manager of the New Brunswick Bank of St. John, and after that I joined the Bank of Montreal, from which I retired about 1912.

*By Mr. W. F. Maclean:*

Q. In what capacity, as manager?—A. My position then was superintendent of branches. Subsequent to that, or during that time I had experience in the winding up of banks. First, I wound up the Pictou Bank in 1888 or 1889. While I was general manager of the bank of New Brunswick at St. John, the bank of Yarmouth failed, and I was appointed curator and afterwards I was elected by the shareholders and depositors as sole liquidator. Then, while in the Bank of Montreal, I was called upon to perform some very responsible duties in connection with the Ontario Bank of Toronto which failed in 1907. Subsequent to winding up the Ontario Bank, I undertook similar responsibilities in respect to the Sovereign Bank of Canada; the bank of St. Hyacinthe in the Province of Quebec, the People's Bank of New Brunswick at Fredericton, and my father's old bank the Summerside Bank. I think that covers the banks. Subsequent to that, while still in the bank of Montreal I was made what is similar to our curator of the United States Banking Company of Mexico City, Mexico. As a matter of fact, I am still the liquidator of that bank, the process being a slow one on account of the political conditions in Mexico.

*By Mr. McMaster:*

Q. So, Sir William, you have presided at the death bed or disposed of the remains of many banks?—A. Yes.

Q. Could you give us an appreciation of what you think led to the disasters which overtook those banks? Are you able to give us a general view of what was wrong?—A. I am, yes.

The VICE-CHAIRMAN: I may say, for the benefit of the committee that Sir William has prepared a statement covering the whole subject, and I think it would be advisable to allow Sir William to give that statement to the Committee.

Hon. Mr. STEVENS: And question him afterwards.

The VICE-CHAIRMAN: Yes.

The WITNESS: The statement of the Chairman is a correct reference to what I have prepared. I have called it a memorandum or rather a review of past conditions, with a recommendation covering what I think the Committee want to get at. I will read it. (Reads):

Having had a rather extensive experience with banks which fell into evil ways, I have found that in general the ordinary legitimate business in all cases was fair to good, and would never have resulted in loss to depositors and that the trouble in all cases was the result of one or a few irregularities involving large amounts which had occurred in defiance of well-known principles in banking. The irregularities were in most of cases recognized as such by the managements which were responsible, but were the results largely of reasonably conservative beginnings but insidious after growth and finally vain struggles at recuperation. In all cases a man of experience charged with comprehensive examination and bringing uninfluenced judgment to bear would have discovered the weakness, and with the necessary authority could have cut the losses and prevented disaster.

[Sir William E. Stavert.]



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It may therefore be concluded that given skill and honesty, there is probably no better system of bank inspection or examination than that practised by Canadian banks in the past. It is the Scotch and English system which has, with a single startling exception, stood the test of generations with a gratifying degree of satisfaction.

Additional safeguards which are provided for in the lately revised Bank Act have no doubt improved conditions and if others can be discovered it would be well to consider them with a view to their adoption.

In the minds of the public and of those who seek to provide safety for depositors the system of ordinary inspection, as it has been practised for many years by successful banks, does not received much consideration. Government inspection or audit by public accountants is somewhat similarly regarded by the banks, but I think it may be said that all systems have their advantages and that the banks in Canada are at present enjoying those advantages in combined form.

What has happened in the recent past need not here be reviewed as the events are fresh in the minds of all concerned. The object is to avoid a repetition.

After giving the whole subject careful consideration in response to the summons of this Committee, I am of the opinion that the presently improved provisions of the Bank Act can be availed of to meet all requirements by a comparatively simple modification which can be adopted forthwith and which I have the honour of suggesting as follows:—

Let the Act be amended to provide for an organization over which will preside a man of wide experience in Canadian banking and of approved judgment, whose duty it will be to receive copies of reports in detail, including details of branches near and remote, which will be made by the audit accountants as presently provided for, to study and criticise conditions and methods of management as revealed by such reports, to check estimates of values of assets as made by the accountants, to communicate his criticisms to the general managers of the banks concerned in Board meetings assembled by correspondence, to keep closely in touch with banks as a whole, and to personally visit the head office of each bank as well as the larger branches at his discretion yearly, at least, or preferably twice per year, for the purpose of looking into conditions at close range and discussing the various aspects of the situations as they exist and are revealed and generally to do such things as are in his opinion necessary to determine the actual position as far as possible.

My experience enables me to state that the right kind of man would very soon discover irregular methods and would discuss them with the management. His service would not be so much in the nature of a secondary inspection, or examination of the efficient and economical functioning of the bank which he would be visiting as in a comprehensive view. That would be for the inspector of the bank, the management generally and for the accountants acting for the shareholders. The principal roll of the man I have in mind would be to view the situation comprehensively in the light of the information he would be able to obtain from studying the reports of the accountant auditors, the reports of the inspectors of the bank, the credit information files and the current operating of the principle accounts at head office and branches. He should have the authority now enjoyed by the accountant auditors and the Minister of Finance under Articles 56 and 112 of the Act, to call for such information as he might require from time to time, and he would know what he should have and fall for it.

It would be the duty of such a man to report to the Minister of Finance and in the event of difficulties arising to make recommendations to the Minister and

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failing, the taking of such action as might be recommended to consult with a small Committee of the Bankers Association to be appointed for the purpose, and to act without prejudice or responsibility.

Such a system might not prevent bankruptcy where the mistakes had been made previous to the adoption of the system or might have been made in defiance of the safeguards provided, but would have a very wholesome influence on those who might be tempted to go wrong, and would have the effect of preventing questionable practices or methods or of checking them in the bud. It would also prevent and determine that struggle which so often takes place when too late to restore conditions, and which usually ends in confusion worse confounded as in the recent cases we know of.

Such a position should command a liberal salary and the appointment should be strictly non-political. I suggest that the appointment should be by the Supreme Court of Canada, or the Chief Justice, or other judicial authority in the absence of the Chief Justice, and I think that the amendment in providing for such appointment should also provide that the Chief Justice would be expected to hear representatives, say presidents or general managers, of the principal banks, on the subject of the capacity and ability of nominees or applicants for such appointment. The amendment should further provide that it would be the duty of such representatives of banks to supply the information so far as they might be able to on being called upon, and that their act in so doing would be without prejudice or responsibility to themselves or the banks they represent.

The expenses of the organization, including the salary of the presiding officer, might be borne by the banks in the proportions of the assets of each, as shown by their statements.

It may be objected by some that the plan would attach responsibility to the Government in the event of a disastrous failure. The answer to such an objection is that the Government has always had a certain responsibility, if only moral, because of providing a Bank Act and for certain returns and supervision, which responsibility was somewhat increased at the time of passing the present Act. The further increase of responsibility under this plan is very small, especially when the safeguards are considered, but what is the responsibility at most? It is held that there is no legal responsibility and the amendment could emphasize that. It may also be observed that in the United States active and dominating examination of banks is carried on by the Government and no question of financial responsibility has ever arisen.

The amendment should also provide that the personnel of the organization will hold office at the pleasure of the Court or Chief Justice.

Such assistants as the presiding officer of the organization might require should be of his own selection, and salaries should be on the scale of salaries paid by banks for similar duties.

It should be understood that the organization would be conducted economically by avoiding detail in routine, depending upon the staffs of the different banks and the audit accountants for such detail as might be necessary. In other words, the organization should be conducted as if it were a section of the Finance Department, which after a manner it would be.

*By Mr. Shaw:*

Q. Have you examined the amendment proposed last year by Mr. Woodsworth, the Member for Central Winnipeg, dealing with this very matter?—A. No.

Q. He presented to this Committee and subsequently to Parliament an amendment which is substantially on all fours with the proposition which you now make. You have not had occasion to examine that?—A. No.

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Q. With regard to your suggestion: You suggest that the expenses of this work should be borne by the bank?—A. Yes.

Q. Is the object of this organization to protect the public or protect the bank?—A. The public.

Q. And why should not the public pay for their protection?—A. That is a detail.

Q. But is it not rather important?—A. No, sir.

Q. If you have men paid by the Government they are responsible to the Government; if paid by the bank, the question might be different.—A. Perhaps so.

Q. They are under a misapprehension as to where the responsibility lies. So you would not object to the payment of such an organization by the Government?—A. No.

Q. And now you suggest that there is no responsibility on the Government in the event of inspection?—A. Yes.

Q. Is there any responsibility on the Government in the event of its failure to make any inspection?—A. There might be.

Q. So that you would agree with what Mr. Edwards said this morning that this failure to take every safeguard including the inspection would invite responsibility on the Government?—A. Yes.

Q. And it is not, on the other hand, that inspection invites responsibility?—A. No—exactly.

Q. Now, if you decide on this plan which you have suggested, Sir William, have you gone into any other matters that would assist in protecting depositors?—A. No, I cannot say I have.

Q. Are you familiar with the Reserve or National Bank System?—A. By repute.

Q. Have you made any investigation of it?—A. No.

Q. So that I take it that on that field you would not feel that you were speaking with the same authority as you do in connection with the Canada Bank Act with which you are more intimately associated?—A. Exactly.

Q. It was suggested, Sir William, that there never had been any losses to note-holders in this country. Do you know, as a matter of fact, whether that is so?—A. I do not know of any losses ever having occurred to note-holders in recent years.

Q. There were some, I believe, before this section of the Bank Act dealing with the security of the notes was provided?—A. Previous to the formation—

*By Hon. Mr. Stevens:*

Q. How long ago?

Mr. SHAW: I am speaking only from recollection.

Q. Do you know, Sir William?—A. The Bank of Liverpool and the Bank of Acadia—

*By the Vice-Chairman:*

Q. No, how long ago, Sir William?

*By Mr. Shaw:*

Q. Since losses were suffered by note-holders?—A. It must be fifty-five years.

Q. In any event, Sir William, it would be before the inauguration of the present system?—A. Yes, sir.

Q. With regard to that, the question of the priorities—were you in the room this morning?—A. Yes, sir.

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Q. You are familiar, of course, with priorities, that is, the note-holders having the first priority, and then the Dominion Government, and the provincial government, and you will realize, of course, if you remove these priorities, any one of these, you will safeguard the depositors to that extent?—A. To the extent that a failed bank might have money of the governments.

Q. Money of the provincial government?—A. Yes.

Q. I am not suggesting that the securities, so far as the notes are concerned, should be removed. I think that should be maintained, but I want to ask you this question: What objection would there be to using the circulation redemption fund in satisfaction of the outstanding notes of an insolvent bank first, and then letting the circulation redemption fund be increased up to the proper standard by the banks, subsequently?—A. Well, that is provided for in the Act.

Q. No. Let me point this out, Sir William. Here is what happens. The circulation redemption fund now stands at something over six million dollars. In the event of an insolvent bank—take the Home Bank for instance—the first claim upon the assets of that bank is the lien of the note-holders, and they must be paid in full from the assets of the bank. If the assets of the bank are not sufficient for that purpose then they go on this circulation redemption fund, but they do not go on to it if there are sufficient assets to satisfy the note-holders. Do you see the significance of my remarks?—A. Not quite.

Q. Well, let me put it again. The circulation redemption fund now stands at the sum of six million dollars. We will say the Home Bank had outstanding at the time of its insolvency two million dollars' worth of notes. These note-holders do not share in that circulation redemption fund. They come on to the assets first—

Mr. GOOD: Including the depositors' money.

Mr. SHAW: Including the depositors' money.

Q. —and it is only in the event that the assets of the bank are not sufficient to meet the notes, that the note-holders fall back upon the circulation redemption fund. That is correct?—A. Yes.

Q. What objection would you have or would you raise to a proposition to have the note-holders fall first upon the circulation redemption fund instead of on the assets of the insolvent bank as at the present time?—A. I do not know that I would have any objection to that.

*By Mr. Marler:*

Q. You understand that, Sir William, perfectly clearly? It means that the money put in by all of the banks would be called upon first?—A. Subject to recuperation by the banks.

Mr. MARLER: That is the way the question was put. I would like to have that made perfectly clear to the Committee. However, I may be misquoting it.

Mr. SHAW: No, I think you are right. I too want that made clear to Sir William.

Mr. MARLER: I believe what Mr. Shaw is trying to bring out is this: he says that the notes of a failed bank should run against the circulation retirement fund. Of course, as you are well aware, in the circulation retirement fund there are contributions by many banks, and it may mean that the notes of a bank—in this instance, the Home Bank—would be far more than what the Home Bank has contributed to that fund. It seems, therefore, that the contributions of the other banks would be taken for the purpose of paying the notes of the Home Bank.

Mr. SHAW: That is right.

The WITNESS I misunderstood Mr. Shaw's question.

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Mr. MARLER: If I might add to that; there will be no recourse for the banks which have contributed to get back anything.

*By Mr. Shaw:*

Q. If the circulation retirement fund were to share *pro rata* with the other creditors—you would not agree with that?—A. No.

Q. You think the present situation is satisfactory whereby the circulation retirement fund is only to be called upon in the event that there are not sufficient assets of the bank, including the depositors' money, to pay the notes?—A. Certainly.

*By Mr. Irvine:*

Q. What would be the object then of a fund of this character? Might not the Home Bank, which I think secured \$100,000 from this fund, have as well put that into a rest fund by itself? Why have a fund at all if it is not to create the idea that the whole fund is behind any bank that fails?

*By Mr. Shaw:*

Q. I think we understand each other thoroughly, Sir William. Do you not see if the scheme I suggested were in force that every bank would be vitally interested in the welfare of every other bank?—A. They are now.

Q. But not financially?—A. Yes.

Q. Excepting insofar as the failure may affect public confidence?—A. And so far as the assets of a failed bank may not be able to retire its circulation.

Q. But no case of that kind has happened?—A. No.

Q. But the Home Bank indebtedness in that respect being only two million dollars at most, and the circulation retirement fund being six million, the facilities there are ample to cover all the notes?—A. Yet the other banks are interested.

Q. But that is a remote contingency?—A. Yes.

Q. If we had something like that do you not agree that each bank would feel it was very vitally financially interested in every other bank?—A. They are now.

Q. Would it increase the interest?—A. It is a question of degree.

Q. Would it increase the interest?—A. I do not know that it would increase the interest.

Q. With regard to the priority given Dominion and provincial governments, are you prepared to eliminate these priorities and let these governments stand on exactly the same basis as ordinary creditors?

Mr. MACLEAN: Taking their own chances under their own laws.

The WITNESS: Personally I should not urge any objection.

*By Mr. Shaw:*

Q. You see the Dominion Government has opportunity now to secure from all the banks all the returns, and it is in the best position to judge as to where to put its funds?—A. At the time.

Q. It is in a much better position than the ordinary depositors, is it not?—A. I do not know as it is. The statements of the banks go to the public as well as as to the Government.

Q. But the Government has the power to call for certain returns which never become public?—A. Yes.

Q. So there is no reason why they should be given a preferred position?—A. No.

Q. If anything, their position should be lower than the common depositors' because they have the information within their power, or have the opportunity



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of getting it which is not given to the ordinary depositors?—A. That is a technical thing, there.

Q. I take it, then, you would have no objection to the elimination of these priorities?—A. Not personally.

Mr. MACLEAN: And therefore the giving of these priorities is damaging to the depositors who supply most of the money to the banks.

*By Hon. Mr. Stevens:*

Q. In this suggested scheme, Sir William, this officer, whom we will call a supervisor, although no name was given for him—could such supervisor secure safe, sufficient and reliable information from the banks in their statements by the method suggested by you, added to which would be a check on some of the leading branches without what we might call physical examination?—A. I believe so.

Q. In your experience in the banking business, generally speaking, are the returns from branch banks to the head offices weekly, daily or monthly as the case may be, in the main thoroughly reliable?—A. Yes.

Hon. Mr. STEVENS: I asked that question of Mr. Edwards this morning and I think it is absolutely vital to such a scheme as you have here to determine this point.

Q. Is the proportion of their reliability such as to warrant you in saying that the risk is so small as to be almost negligible?—A. I believe so.

*By Mr. McMaster:*

Q. Sir William, you suggested a method of appointment of this supervisor which was somewhat unusual. You suggested it should be made by the Chief Justice of the Supreme Court. Would you tell us why you arrived at that conclusion?—A. I was led to that conclusion largely by reason of recent events.

Q. That is not clear to me yet. Speak with the utmost frankness, sir. You are among friends.—A. While I did not say it, it is said that in a recent case there was in effect Government inspection but no action was taken. Beside that, if the appointment is purely non-political the public would have an opportunity of getting a better selection than if it were political.

Q. Now, just let me follow this a little further. Suppose the Chief Justice appointed someone who was not competent, and who was proven to be incompetent, what would you do?—A. I would take steps to have him dismissed.

Q. Dismiss the Chief Justice for having appointed a bad man, or have the bad man dismissed?—A. Have the bad man dismissed.

*By Mr. W. F. Maclean:*

Q. Might I ask this question? What is your objection to the Government inspection that they have now in the United States, or do you think that this is a better system than they have there?—A. I think this is a better system.

Q. Has that system failed in the United States, up to date?—A. I cannot say that it has.

*By Mr. Good:*

Q. Just in continuation of this question of the appointment, I would like to know what Sir William thinks about the proposition as suggested, that such a supervisor should be appointed as the Auditor General is appointed, removable only by Parliament? Let him be appointed by Parliament and removable by Parliament.

Hon. Mr. STEVENS: The Auditor General is not appointed by Parliament; it is a straight political appointment.



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Mr. GOOD: Is there any possibility of getting an appointment by Parliament that is not political?

The WITNESS: My answer is the same; I think we would have a better selection, because the selection would be made by men who know the capacity and ability of the applicant or nominee.

*By Mr. McMaster:*

Q. Sir William, we have had in the past 25 years in Canada, as Finance Ministers, Hon. William Fielding, Sir Thomas White, Sir Henry Drayton, Hon. A. K. MacLean, and the present acting Minister of Finance, Mr. J. A. Robb. Is it your considered belief that the Chief Justices of the Supreme Court during that 25 years were better judges as to the qualifications and requirements of such a supervisor as you suggest than any one of these gentlemen?—A. If his principal advisers were general managers or presidents of banks, for an appointment of this kind.

Q. Under your plan, this appointment is to be made by the Chief Justice of the Supreme Court, but he is really to be the mouthpiece of the presidents and managers of banks, who advise him? He is to be guided by them?—A. As I have stated in the plan, after hearing general managers and presidents of banks.

*By Mr. W. F. Maclean:*

Q. But without hearing the public that we claim to represent here.—A. You may add that if you like.

*By Mr. Irvine:*

Q. May I ask if it was your motive in making that suggestion that while the bank system is practically a corporation, it would be better to keep it separate from Government interference? Would that be your motive?—A. No.

Q. Would you think, then, it was the inefficiency of governments generally that you were trying to get away from?—A. No, it is purely as I said, I think we would have a better selection by the method I have suggested.

Q. Would you lend your support to this suggestion, that following out your organization there, and instead of having one man appointed by a Judge, how would it be to have a group of men, one appointed by the Bankers' Association, one appointed by the manufacturers and business men generally, and say the Finance Minister? Would that meet with your approval, to have say three or four men put on that committee or board to do this work?—A. I would not urge any objection, but I think my plan would result in a better appointment.

Q. Your plan leaves only the one, where in the other case you have three or four chances of getting a good man.—A. But you have several general managers and presidents of banks.

*By Mr. McMaster:*

Q. What you are afraid of is that political partisanship might bring about a poor appointment, and you are trying to get away from that?—A. I would not put it that way; I would put it as I did before. We would get a better selection.

*By Mr. Hughes:*

Q. Sir William, the suggestion you have made, would it not really resolve itself into this; would I be correct in saying that the Chief Justice, a man learned in the law and an experienced man in his own business and experienced generally, who would have not very many qualifications to enable him to appoint a man of that description personally, but you suggest that he would be

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advised in the appointment by the presidents and managers of the leading banks in Canada? In 9 cases out of 10, and perhaps in 99 out of 100, would he not accept that advice in making the appointment?—A. I think he would accept that advice.

Q. And in reality, therefore, the appointment would be made by the presidents and managers of the leading banks that is what it would really amount to, though confirmed or ostensibly named by the Chief Justice of the Supreme Court.—A. It would have that effect, subject to the judgment of the Chief Justice.

Q. Well, I think myself, if you will permit an expression of opinion, that it would be a better method of selection than an appointment by the public or by the Government or by Parliament.—A. Thank you.

Q. Then there is a suggestion made, or rather a suggestion has been made—in fact there is a resolution before the House of Commons—that the depositors in the banks be safeguarded; that the smaller depositors in the banks, say up to \$3,000 be safeguarded by the creation of a fund similar to the Redemption Fund with regard to the notes in circulation now.

Mr. McMASTER: I hardly think that is quite fair to Mr. Ladner, when he thought the matter was not going to come up.

Mr. HUGHES: Very well, I will not continue any further with that. I just thought it would be a good time to get the experience of the present witness on that subject.

*By Mr. W. F. Maclean:*

Q. Would you limit it to one name being submitted to the Chief Justice, or any number?—A. Any number, of course.

Mr. MARLER: Is it permitted to ask the witness a question that may not be strictly germane to the question of bank inspection?

The VICE-CHAIRMAN: Yes, I think so.

*By Mr. Marler:*

Q. I simply want to ask one question, a question which I brought up this morning as regards the facilities given in country branches, or branches outside head office branches—I think Sir William and the committee will understand very well what I mean. Are the facilities of banks equally at the disposal of the branches I first referred to, as they are at the disposal of the branches I have secondly referred to?—A. Quite.

Q. In other words, branch bank managers have equal facilities of the bank funds towards their customers as managers of the larger branches in the large centres?—A. Yes.

*By Mr. Spencer:*

Q. Following up the question that Mr. Marler asked you, I would like to know if you are aware of this fact, that when clients of our various branch banks have asked for certain lines of credit, although they are admitted to be good safe clients, they have been turned down for the simple reason that instructions have been given from headquarters that no more credit must be given out to certain particular branches?—A. I have heard of such excuses having been given, but I have always found in cases where they have been given that it was a flight of the manager's imagination.

Q. I know for a fact that the statement has been made by managers?—A. Quite so.

Q. While I am on my feet I would like to ask another question. You made the statement a few moments ago that you considered that the inspection of the

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Canadian banks was a better system than the inspection in the United States. Would you mind giving the committee the reasons for that? Or am I stating it correctly?—A. I did not say that. What I said was that our system of inspection as has been practised for many years, which is the Scotch and English system, was giving gratifying satisfaction. I did not compare it with the system in the United States.

Mr. SPENCER: I beg your pardon, I thought you did.

*By Mr. Good:*

Q. You mean the system now followed by the banks with their branches.—A. Yes.

*By Mr. McTaggart:*

Q. There was a question suggested to my mind in relation to the branch banks, and I would like to know for information only if the loans at branch banks must bear a relationship or be in a certain proportion to the deposits at the branch bank?—A. Not at all.

Q. There is no relationship?—A. No.

*By Mr. W. F. Maclean:*

Q. Is it your opinion that small banks can do no more for their respective localities than the branches of large banks with head offices some distance away, or is there not room in this country, notwithstanding our past experience, for the development of smaller banks intimate with their locality and its requirements?—A. My experience has been that branch banks in localities where there are small banks have the most desirable business of the locality, one reason being that the customer's affairs in the case of the branch bank are known only to the manager, while in the other, they are known to a Board of Directors.

*By Mr. McMaster:*

Q. Do you regard that as a disadvantage?—A. I am simply stating what I have observed.

*By Mr. Irvine:*

Q. Have you had experience with a small bank which was not a branch bank?—A. Yes.

*By Mr. Garland:*

Q. Just one question. Is it not true in Canada that the smaller branch bank managers have a discretionary loan limit which is considerably less than the loaning limit, say at larger branches in cities, or in the central branches?—A. The authority does vary, but very little.

Q. I am afraid I must disagree, out of my own knowledge. For example, if you can give the committee the discretionary limit of the branch bank of the Bank of Montreal in Toronto, I can give you the discretionary limit of the branch bank of Montreal in my town, and I think we will find a very considerable disparity. Therefore, the facilities are not alike.

*By Mr. Marler:*

Q. Before you answer that question may I say a word? It may be true, and I admit it is true that a branch manager has not got the power to make a loan, so to speak, on his own authority, but that self-same manager has command of all the funds at that bank for making a proper loan on referring the matter to his head office. Am I not right there?—A. Yes.

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*By Mr. Garland:*

Q. Just following that up also, may I suggest that Mr. Marler's point is hardly well taken. You see, a local or rural branch of the Bank of Montreal has a certain small discretionary loaning limit, we will say, in some cases—last year as a matter of fact it was around \$500.00. Over that, application had to be made to the office in Calgary, but in the event of the loan being over \$10,000 to \$15,000 or \$20,000. I am not sure of the amount, the Calgary office had to refer the question to the head office, so there was really a whole series of steps. In short, the facilities did not exist equally as between the bank in Toronto or Montreal and the branch say in Rumsey. Is that not true?—A. The facilities as they exist are better where the electric wire can be availed of. The loan of a very large amount can be arranged within 24 hours by electric wire. In the case, for instance, of a smaller bank, you have to wait for a meeting of the Board of Directors perhaps once or twice a week. If you want comparisons, there is one that I can give you in my experience.

*By Mr. W. F. Maclean:*

Q. May I ask one more question? You see no objection to bank mergers?

Mr. McMASTER: He did not say so.

Mr. MACLEAN: I have drawn that conclusion from his statement so far, that bank mergers are good for this country.

Mr. MARLER: This is a new subject.

Mr. MACLEAN: Yes, I know it is.

The VICE-CHAIRMAN: What is your question?

*By Mr. Maclean:*

Q. I was asking Sir William—I will put it this way, whether he thinks there should not be a limitation to bank mergers in this country?

The VICE-CHAIRMAN: I do not believe there is any objection to that question.

The WITNESS: Bank mergers cannot be effected excepting by the consent of the Minister of Finance. There are objections to them in the minds of the public, while among financiers there are reasons why they should take place, as they have done in England where to-day with a population of over forty millions there are only five banks.

*By Mr. Ward:*

Q. I think if there is one question that has been dealt with by this committee that is more interesting and more important than another, it is the very question just under consideration, and that is a comparison between the facilities afforded by the little branch bank out in the rural district, or out in the little town, and those afforded in the cities. In spite of the remarks of Mr. Marler and Mr. Edwards, and the witness before us, I can give a concrete example which may be of interest to the committee. Just a short time ago a man in my own town, operating a little manufacturing business—

The VICE-CHAIRMAN: I want to draw your attention to the fact that we have Sir William Stavert for just a few moments. If you have a question to put to him, very well, but it would be losing his time and the time of the committee to enter into this matter which may be discussed at a later date.

Mr. WARD: If you had allowed me to go on I would have been through by now.

The VICE-CHAIRMAN: Very well, go ahead.

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Mr. WARD: This man spent three months of his good time in an endeavour to get a loan from the local manager in his home town. He was finally forced to buy a ticket to the city of Montreal, and he had his line of credit increased by exactly 100 per cent by appearing at the head office in the city of Montreal. I could give three or four more cases that occurred in my own town. I think the statements are unfair and leave an impression before this committee that there is not a disparity between the facilities in the country and those in the city.

The VICE-CHAIRMAN: Gentlemen, any other questions to be asked?

*By Mr. Coote:*

Q. Just one question. I think Sir William said it should be stated plainly in the Act that the Government assumes no responsibility for depositors. I would like to ask him if he would have any objection to an amendment to the Bank Act providing that every branch bank should display such a sign at each of its offices where it is receiving deposits, that the Government assume no responsibility whatever for the deposits in those banks?—A. I cannot answer that question.

*By Mr. Hughes:*

Q. Sir William, is not the chief object of the larger banks in opening ordinary branches in the smaller places to get deposits rather than to make loans?—A. No.

The VICE-CHAIRMAN: Our time is now exhausted, and we must adjourn. I am sure I am voicing the sentiments of the Committee in thanking Sir William Stavert for the valuable information he has given to the Committee. Now, gentlemen, we will meet again on Tuesday at 11 o'clock.

Witness retired.

The Committee adjourned.

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

TUESDAY, May 20, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m.

The SECRETARY: On Thursday, the 15th of May, his honour the Speaker read to the House the resignation of Hon. Walter G. Mitchell as a member of the House. Mr. Mitchell was Chairman of this Committee, and it is now my duty to ask the members of this Committee to select a new Chairman.

Mr. HUGHES: Mr. Vien has been acting-chairman for some time, I think with general satisfaction, and I would therefore move that he be elected Chairman of this Committee.

Mr. SPENCER: I second that.

The SECRETARY: Any other nominations? If not, I declare Mr. Vien elected and ask him to take the Chair.

Mr. Vien having taken the Chair.

The CHAIRMAN: I beg to thank you very cordially for this honour and mark of confidence. I know too well my shortcomings and limitations to think that any merit of mine has brought me this honour. But as a member of the

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Committee on Banking and Commerce, particularly since 1921, my associations with the members of the Committee have been so pleasant, and I have been able to realize and to have such faith in the sincerity of purpose of all hon. members of the Committee, that I shall bank on their hearty co-operation. I accept the honour and will endeavor to discharge the duties of my office to the best of my ability. I can only hope that I shall be able to live up to your expectations.

Gentlemen, I must communicate to the Committee a letter from the Speaker of the House of Commons to the Editor of Debates and Chief of the Reporting Branch of the House of Commons. This letter relates to the rules in respect to the reporting and printing of proceedings of Committees. It will be printed in our record, and I think it will save time to have it printed in our proceedings so that hon. members will be able to take cognizance of it in to-morrow's report. (See page cxlix.)

"Notices of motion" called.

Mr. W. F. MACLEAN: Will you please announce the programme in regard to witnesses?

The CHAIRMAN: I shall do that in a minute. I have a notice of motion from Mr. Spencer which reads as follows:—

"That the Bank Act be amended to provide that the moneys in the Circulation Fund shall first be applied to the payment of the notes of a bank which has suspended payment and that the other assets of the bank be not applied to the payment of such notes until the moneys in the said Fund are first exhausted."

Any other notices of motion?

Gentlemen, we have the pleasure of having with us this morning Mr. John W. Pole, Chief National Bank Examiner of the Department of the Treasury at Washington. Mr. Pole has been kind enough to come and give evidence on the system of bank inspection as it now exists in the United States. He will be our first witness. Then we shall have the pleasure of hearing Mr. Skelton Williams on Thursday next. Mr. Pole is at our disposal for to-day and to-morrow.

Hon. Mr. STEVENS: May I suggest, Mr. Chairman, that in our proceedings with Mr. Pole, we should permit him to make his complete statement before asking questions; otherwise, I am afraid that owing to the tendency of Committees of this kind to ply witnesses with questions we might lose some of the value of his statement. After he is through, I presume he would have no objection to answering questions from members of the Committee.

The CHAIRMAN: I think Mr. Stevens' suggestion is very good indeed. It is along the lines of our rules of procedure as determined at the opening of our sittings that the witness be allowed to make his statement and then hon. members who wish to put questions can do so.

Mr. W. F. MACLEAN: How long may we expect to have this witness here?

The CHAIRMAN: To-day and to-morrow. Meantime, Mr. Edwards' evidence will be suspended so as not to delay the two gentlemen who come from the United States.

Mr. HUGHES: Should there be any limit to the time that one member occupies in examining the witness?

Mr. McMASTER: We must leave that to the discretion of the Chairman. He will rule wisely and justly.

The CHAIRMAN: I think it would be unfair to put any limit on hon. members. Some members are more interested in putting questions than others. As



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I said a moment ago, we all have faith in the sincerity of purpose of every hon. member of the Committee. They are desirous of discharging the duties of their office and are trying to live up to the expectations of Parliament. Parliament has referred to us the question of suggesting whatever amendments to the Bank Act are in our opinion advisable, with a view to remedying the situation which has been exemplified in the case of the Home Bank, and with a view to trying to give a greater degree of safety to depositors and prevent a recurrence of that unfortunate incident.

MR. W. F. MACLEAN: Along the line of what you are saying, Mr. Chairman, I would suggest that if witnesses are limited in time, as this witness is, members might make their questions short.

The CHAIRMAN: I think that will appeal to hon. members.

MR. J. W. POLE called.

The CHAIRMAN: Mr. Pole, may I ask you to give to the Committee a short history of your life and practice in connection with banking so as to qualify you as a witness?

WITNESS: I was born in England and lived there for twenty-three years, so that I may say, gentlemen, that I feel very much at home under the Union Jack. I came to the United States in 1893, and after practicing for a short time the profession of civil engineering, I later got into the banking business in Kentucky, and afterwards in Alabama, where I was associated with quite a number of banks. In 1915 I was appointed National Bank Examiner. From that date, after moving to various parts of the United States and conducting examinations of banks, I was for five years Chief National Bank Examiner, which position I shall explain to you a little later, of the sixth Federal District, which carried me up to last year when I was appointed Chief National Bank Examiner of the United States, with offices in Washington in the Treasury Building.

The CHAIRMAN: Mr. Pole, the order of reference to this Committee from the House is to the effect of suggesting such amendment to the Bank Act as would prevent a recurrence of the sad incidents of the Home Bank failure, in connection with which the depositors run a risk of losing their deposits. The Committee is anxious to hear you on the question of bank inspection, and particularly in regard to the system which prevails in the United States, with a view to seeing whether we cannot improve on our system of bank inspection by adopting some of the methods that you have in force in your country. Therefore, we would like you to make a general statement to the Committee as to the system which prevails in the United States, and, if you are in a position to do so, to compare it with that in existence in Canada.

WITNESS: Mr. Chairman, and gentlemen, when I received your telegram, Mr. Chairman, I was rather at sea and have been, in fact, until you spoke a few moments ago, as to what precisely the purpose of this mission was. I understood in a general way that it had something to do with examinations, but at that time, I was not familiar with your system of examinations; in fact, I did not know you had any; what we term an examination. I thought that yours was merely an audit which the banks were required to submit, I think, to the Minister of Finance.

MR. W. F. MACLEAN: So it is.

WITNESS: Now, in the United States we have, as you gentlemen are well aware,—a dual system of banking. There are the State Banks which are operated under State laws and which are examined by the Banking Departments of each State. There are 48 States, 48 different systems, and 48 different char-

[Mr. John W. Pole.]

## APPENDIX No. 1

acters of banking, as we might call it; and as many different laws and systems of examinations. It is generally conceded that in some instances the State Bank examinations are rather loose, and I think that may be perhaps demonstrated by the fact that the percentage of State bank failures is greatly in excess of the National Bank failures. The Comptroller of the currency is in charge of the banks and bank examinations for the Government, and it has been the effort of succeeding Comptrollers to improve the character of examinations and use every effort to make the banks safer places for the deposit of funds, for creditors as well as for shareholders.

During the regime of Mr. John Skelton Williams, whom I understand is to appear before you, there was a radical change in the examinations. They were stiffened up considerably and very much improved.

*By Mr. Hughes:*

Q. Examination of State Banks and National Banks?—A. These are National Banks. But during Mr. Dawes' regime, the examinations are perhaps even more technical and very practical. Now, this is necessarily, Mr. Chairman, a fragmentary sort of a statement, because I am thinking about it as I go along. The forces of examiners in the United States consist of about two hundred and fifty examiners, and about two hundred and fifty assistants, with twelve chief examiners. The territory is divided into twelve Federal Reserve districts, there being a chief examiner in charge of the banks within the confines of each district. The law requires that examinations of banks shall be made twice yearly, but the Comptroller of the Currency has power to make as many examinations of any bank as he deems advisable, and it is not infrequently that examinations are made as often as every sixty days, in instances where banks have become over-extended or are in an otherwise unsatisfactory condition.

*By Mr. Maclean:*

Q. Any notice given of an examination?—A. There is no notice given, Mr. Maclean, of these examinations. In fact, they are made at irregular intervals, so that the banks may not be on notice when the examinations are to be made.

Q. Does this all refer to National Banks?—A. It all refers to National Banks. The duties of the Chief Examiner are to superintend the work of examination in his particular Federal Reserve district. His examiners, who are working under him, and his force of assistants make these examinations and their reports are sent to the chief examiner's office in the Federal Reserve district where they are typed and forwarded to Washington; one copy of the examination goes to the bank, one to the examiner for reference at the next succeeding examination, one is retained in his office, and one is sent to the Federal Reserve Bank of the district. After that report of the examination gets to Washington it is analyzed by men of wide experience who have been drawn from various sections of the country in which the banks are located, and are known as "Assistant Chief National Bank Examiners." They are executives and men of wide banking experience, being selected particularly for the qualities which enable them to make an analysis report and conduct correspondence with the banks with a view to correcting any unsatisfactory conditions which may have been found at the examinations. The kind of examinations which have been adopted are in the form of interrogatories, and I should be glad to leave a copy of these forms with the Committee together with any other data which may be of interest.

Q. How many pages does that make?—A. It makes about twelve pages, Mr. Maclean, and when completed is a very comprehensive analysis of the bank. The examiner will go into a bank at an unexpected time, with his assistants. In a large bank like the National City Bank of New York, using this

[Mr. John W. Pole.]



as illustration, the examiner in charge goes in with perhaps three assistant examiners and fifty assistants; while in the smaller banks one examiner with one assistant will handle the proposition. With the exception that no loans are verified with the makers and no deposits are verified, an audit is made. In addition to this, and this is regarded as even more important especially as the larger banks maintain an auditing department of their own, the bank's assets are carefully analyzed and a report is made specifying these assets as "slow", "doubtful", or "losses", as the case may be. Would it be of interest to the Committee if I gave the character of some of these questions which are asked in the course of examination?

Form filed as EXHIBIT No. 1 (Not printed).

The CHAIRMAN: I think that would be a good plan.

The WITNESS: That would give a very good idea of the general scope of the examination. On the first page we have the bank's statement, that is, Exhibit No. 1, examiner's report of the condition of the bank. It gives the name of the president and the cashier, and it gives the bank's statement covering all the resources and all the liabilities, of course.

*By Mr. Hughes:*

Q. That statement is made out by the officers of the bank?—A. That statement is taken from the general ledger, sir, by our examiners. The bank officers and the bank clerks render very little assistance to us. We do not require it, and we do not ask for it. This is taken from the bank's books direct. The we have the contingent liabilities. Following that are the names of all the directors of the bank, their post office addresses, and the number of shares which they own, the number of meetings which they have attended since the date of the last preceding examination, and with that is information as to the liabilities of the directors, both individual and firm. We also have the liability of the directors as endorsers or guarantors, and the directors' occupations, so that we have the total borrowings from the bank both direct and indirect, to which we add the loans to the officers and employees or directors. After that, we list the total loans to corporations in which the directors are interested. That is a very important schedule. We have the officers and employees then, the president, the vice-president, the cashier and the assistant cashiers, and their liabilities. There are questions as to bonding; that is the surety bond; to what extent the officers are bonded; whether they are surety or personal bonds; whether the bonds are adequate; whether they are in force, and if so in whose custody; were they inspected, and as to the approval of the bonds by the Board of Directors. Under the heading of "Loans and Discounts" is included list of industries or classes of borrowers to whom loans are being made; is the distribution satisfactory, both as to class of borrowers and amount of loans; "state as to the general character of collaterals and advise if a collateral register is maintained"; "List direct and indirect loans to corporations or enterprises in which any director or officer is largely interested, giving the name of interested director or officer." If any borrow unduly, it is listed on one of these other pages. "Any liability of directors, or officers, as makers, or endorsers, which is subject to criticism; describe fully and give reasons"; "state whether all paper claimed by the bank as to property, including collateral, appears to be properly endorsed or assigned to it, and all mortgages properly recorded and all collaterals accounted for." The next item is with reference to the rates of interest which are paid, the highest and the lowest and the average rate. "Does the bank place paper with other banks, and what is their liability in connection with that?" "Does it appear to be a liability?" "Is it covered by endorsement—"

[Mr. John W. Pole.]



## APPENDIX No. 1

*By Mr. Hughes:*

Q. "Placing paper"; that is, discounting it?—A. No, placed paper. We call it "sold paper," but that is not re-discounted paper; it is paper which is perhaps sold to another bank and ostensibly without recourse, and very frequently with a side guarantee on the part of the sending bank which establishes its liability, although that liability would not appear on the books. It is an important thing, because many banks have got into trouble through that source. It is a dangerous practice, but is indulged in quite frequently, especially in the west.

*By Mr. McMaster:*

Q. Will you explain that practice, please?—A. This bank has a line to a customer which perhaps is pretty nearly up to the limit in order that it may dispose of some of this paper it sells it to one of its correspondents so that perhaps it may take on a further line with this party, and endorses the paper without recourse, perhaps, and that would dispose of it as far as the sending bank's liability is concerned, but the cashier will send a letter advising the receiving bank to charge that up to the sending bank's account when due, and that it will be taken care of, which constitutes a guarantee. That is the practice indulged in.

Q. What is the advantage of endorsing without recourse?—A. So that the liability may not appear on the bank's books. "List certificates issued by other National Banks, saying how carried, and giving full information." Then there is a list made of all other National Bank stock, giving the names of the bank. The next item is with regard to the credit data which may be available in the bank, and as to the credit files and credit information. Then we go on and make a list of all the loans which are statutory bad. That is, any loan upon which no interest has been paid within six months, and which is not well secured and in process of collection. That is a statutory bad debt. That is listed. The other overdue paper is of course listed, and scheduled in detail so as to show the aggregate of overdue paper in ratio to the number of loans which are made. We next make a schedule of the loans which are in excess of the limit. That is a practice which banks indulge in quite freely——

*By Mr. Maclean:*

Q. Who makes that limit?—A. That limit is fixed by law, Mr. Maclean.

*By Mr. Coote:*

Q. Would you care to explain what that limit is?—A. That limit is in section 5200, of the National Bank Act, and covers a very wide range of exceptions.

Q. Would you give it to us in a general way?—A. In a general way the limit of loans is 10 per cent of the capital and surplus of the bank.

*By Mr. Maclean:*

Q. To one customer?—A. To one customer, but there are a number of exceptions to that. For instance, business or commercial paper is an exception to that. Loans secured by commodities readily marketable, and non-perishable are. There are other exceptions Liberty Bonds and otherwise. The 10 per cent limit applies to the generalities of paper. I will file with you a schedule giving the various exceptions to the 10 per cent limit on loans.

Document filed as EXHIBIT No. 2 (See page 80).

[Mr. John W. Pole.]

## EXHIBIT No. 2

Schedule of loans and amounts loanable above 10 per cent of bank's capital and surplus.

The amounts which a national bank may properly lend to any one person, company, corporation, or firm (including in the liability of a company or firm the liabilities of the several members thereof) under the various clauses of section 5200, as amended by the act which became effective October 22, 1919, are stated in terms of the percentage of the paid-up and unimpaired capital stock and surplus of the lending bank.

Character of loans.	Amounts loanable.
(A) Accommodation or straight loans, whether or not single name. Loans secured by stocks, bonds, and authorized real estate mortgages.	Maximum limit, 10 per cent of bank's paid-up and unimpaired capital and surplus.
(B) "Bills of exchange drawn in good faith against actually existing values." The law expressly provides that this phrase shall also include:	No limit imposed by law.
(a) DRAFTS and bills of exchange secured by shipping documents conveying or securing title to the goods shipped.	The inclusion of "drafts" will bring within the exception drafts drawn by an agent on his principal if secured as indicated and a sale of commodity is not a necessary basis. Includes both notes and drafts.
(b) DEMAND OBLIGATIONS, when secured by documents covering commodities in ACTUAL PROCESS OF SHIPMENT.	"Actual process of shipment" does not mean actually loaded on cars, but covers good faith assembling and delivery to the carrier without unnecessary and unavoidable delay.
(c) Bankers' acceptances of the kinds described in section 13 of the Federal reserve act.	These are acceptances of other banks.
(C) Commercial or business paper (of other makers) actually owned by the person, company, corporation, or firm negotiating the same.	No limit imposed by law.
(D) Notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable non-perishable staples, including live stock.	15 per cent of bank's capital and surplus, IN ADDITION TO the amount allowed under (A); or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (D) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10 per cent, but the aggregate of (A) and (D) may equal, but not exceed, 25 per cent.
No bank may make any loan under (D), however—	
(a) Unless the actual market value of the property securing the obligation is not at any time less than 115 per cent of the face amount of the note; and	
(b) Unless the property is fully covered by insurance, and in no event shall the privilege afforded by (D) be exercised for any one customer for more than 6 months in any consecutive 12 months.	
(E) Notes secured by not less than a LIKE FACE AMOUNT of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.	10 per cent of bank's capital and surplus, IN ADDITION TO the amount allowed under (A); or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (E) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10 per cent, but the aggregate of (A) and (E) may equal, but not exceed, 20 per cent.
(F) Notes secured by United States Government obligations of the kinds described under (E) the face amount of which is at least equal to 105 per cent of the amount of the customer's notes.	No limit, but this privilege, under regulations of the Comptroller of the Currency, expires Dec. 31, 1920.

## APPENDIX No. 1

The WITNESS: Mr. Chairman, am I following about the line the Committee wishes?

The CHAIRMAN: Very much so.

The WITNESS: I am anxious to give you about what you want to the best of my ability. The banks are permitted to lend money on real estate; they are permitted to do so to a certain extent. They are permitted to lend money to single individuals, but not in excess of the 10 per cent of the capital and surplus, on real estate that is improved.

*By Mr. McMaster:*

Q. Up to any proportion of its value?—A. Up to 50 per cent of its appraised value, but not to exceed in the case of improved country property five years' maturities, and in the case of improved city properties, one year maturities.

*By Mr. Hughes:*

Q. Appraised by whom?—A. Not necessarily the assessed valuation, but a fair appraisement which has to be arrived at in the best way possible.

*By Hon. Mr. Cramer:*

Q. Which includes the improvements?—A. Which include the improvements.

*By Mr. Maclean:*

Q. And take into consideration any existing mortgages?—A. It has to be a first lien, and it has to be within the Federal Reserve District in which the loan is made or within one hundred miles of that District. A bank may loan to the extent, in the aggregate, of 25 per cent of its capital and surplus, or one-third of its time deposits on real estate. Under the McFadden Bill which has recently been introduced and which we hope will pass, as it clarifies the National Bank Act, and is the first real clarification which the Act has had since 1865, the banks are to be permitted to increase their real estate loans up to 50 per cent of their time deposits, and in order that the city real estate loans may become more liquid the maturities are extended from one to five years. There is a market in the United States for loans which do not mature inside of five years, where there is none for loans which mature within one year. A bank, however, may protect itself by taking a mortgage or anything else in order to save itself from loss on a debt which has been previously contracted, either a first, second, third mortgage, or anything else.

The next very important item is the large lines. That is, large lines of credit which are not technically excessive but which are too large, perhaps, for the size of the bank, and generally regarded by the examiner as an undue extension of credit. All lines which are believed to be subject to criticism as representing unwarranted extensions of credit to the same or affiliated interests include loans, stocks and bonds and other forms of credit, and such lines which may be disproportionate to the bank's resources. These lines are listed together with the collateral. There is another schedule for other lines especially mentioned, which appear to be large, and upon which the credit information is so meagre that the examiner has no means of arriving at the value of these loans. The next is a schedule of current loans which are classified under "slow" "doubtful," and "losses"; following which is a schedule of the bonds and securities held by the bank, together with the character book value, and the market value. The items of real estate, other real estate owned. Then there are the banking houses. A National Bank is not permitted to own real estate other than for purposes of a banking house which it occupies or expects to occupy, but the bank does, of course, acquire real estate by reason of having to take it for previous debts, and that is usually an extremely slow item.

[Mr. John W. Pole.]



*By Mr. Hughes:*

Q. How long is it allowed to hold that real estate?—A. That real estate may be held for five years.

*By Mr. Marler:*

Q. It can only be held for five years?—A. Yes.

Q. What happens then?—A. The law requires it must be disposed of in five years. If it is not, it has to be disposed of as soon as it can. I think you carry it here for twelve years, do you not?

Q. Yes?—A. And there is a penalty if it is not disposed of within the time—is that correct?

Q. Yes?—A. But one of the weak features of the National Bank Act is that the punishment more than fits the crime, very often. About the only remedy of that kind which the Comptroller has is to bring suit for forfeiture of charter, which, of course, would be an absurd thing to think of in the event of the bank holding real estate longer than five years.

*By Mr. Hanson:*

Q. Do they ever resort to that?—A. He never has resorted to it.

*By Mr. Woodsworth:*

Q. Could that five years be extended?—A. Of course, we are in this position; that if the bank acquires real estate, and after the time has elapsed—five years have elapsed—it is not possible to dispose of it, there is nothing to do but to keep it, so that time is automatically extended, and nobody says anything about it, except to have it disposed of as soon as possible.

*By Mr. Spencer:*

Q. There is no enforced sale?—A. No enforced sale at all.

*By Hon. Mr. Crerar:*

Q. In that case it is carried as an asset of the bank?—A. Of course, as an asset of the bank.

*By Mr. Woodsworth:*

Q. If this property should be transferred to a holding company, in which the bank controlled the greater part of the stock would this be considered as legitimate?—A. The bank, of course, would not be permitted to hold the stock in this affiliated company, but the directors might personally hold that stock, and if they saw fit, to take this real estate out of the bank, it would be perfectly permissible for them to do so. In other words, the bank would deal with that affiliated corporation as it would deal with any other disinterested corporation.

Q. But the bank itself would not be permitted to control the stock?—A. The bank would not be permitted to control the stock, excepting that this stock control may be held through the shareholders of the bank itself.

*By Mr. Shaw:*

Q. In the case you suggest, the bank would have to have its claim paid in full?—A. Well, not necessarily have its claim paid in full. It might loan the corporation money to purchase the real estate, or it might sell the corporation that piece of real estate at a price which was regarded as fair, but not perhaps at its full value, at which it was carried on the books of the bank.

*By Mr. Woodsworth:*

Q. Does that same rule apply to other subsidiary companies?—A. As regards stock?

[Mr. John W. Pole.]

## APPENDIX No. 1

Q. Yes?—A. With the exception of stock in safety deposit companies and stock in corporations organized to do a foreign banking business, and of course stock held by the National Bank in the Federal Reserve Bank must be held. Those are the only cases.

Q. What about holding companies in the case of bank premises?—A. A bank may hold an interest in that.

*By Mr. Hughes:*

Q. An interest or a controlling interest?—A. Either an interest or a controlling interest. Now, we were speaking of the banking houses—as to the valuation of the banking houses, and as to whether or not they are carried at a fair valuation, whether or not they were suitable and convenient, whether or not they are free of encumbrance, adequately insured, and as to the vaults, and so forth.

*By Mr. Coote:*

Q. Is there any limitation placed upon the amount which a bank may invest in bank premises?—A. There is nothing in the law to that effect.

*By Mr. Woodsworth:*

Q. How is the value of the bank premises determined?—A. That might be determined on an income basis, or an appraisal basis, but the bank, as a general thing, carries its investment in banking house at a very conservative value, and an effort is made to see that this is done.

Q. It is quite possible, however, to arrive at a fair value of the bank's premises?—A. Appraisalment of bank premises is very frequently made by a Real Estate Board or a Board of Appraisers, or engineers, which may be appointed by the bank or by the Department, and if there is any dissatisfaction arising between the bank and the Department, as to the value of the banking houses, the Comptroller has the authority to have an appraisalment made, and acts as he sees fit in that respect.

*By Mr. Spencer:*

Q. What percentage of the bank's capital is invested in the banking house?—A. There is nothing in the National Bank Act regulating that. That is at the discretion of the Board of Directors.

Q. I understand that, but what is the usual percentage?—A. As a general thing?

Q. Yes?—A. It varies so widely it would be difficult to say.

Q. What is the average?—A. I would say the average would be 50 per cent in small banks. It varies so widely I really cannot place an estimate on it. There would be no such thing as "an average."

*By Mr. Coote:*

Q. You have no figures?—A. I have no figures.

*By Mr. McMaster:*

Q. As a banker what do you think is a proper figure to invest in banking premises as compared with the total resources?—A. The conditions vary so greatly in the different communities that I would not care to express myself on that point. It is a point which has been discussed so very much but I do not think very much has been arrived at.

*By Mr. Maclean:*

Q. They do not decide that definitely in any bank?—A. No, but there is an effort made to keep down the carrying costs of a bank as much as possible.

[Mr. John W. Pole.]

*By Mr. Woodsworth:*

Q. Is the value of a bank's premises written down from year to year so it will be ultimately eliminated?—A. It may be, but it is not done in a great many cases.

Q. Is it not required?—A. It is not required at all, no. The bank is permitted to carry its banking house at a fair valuation.

Q. May a bank erect a large office building and occupy simply a part of the premises?—A. Yes, that may be done; there is no objection to that.

*By the Chairman:*

Q. Is it usual for banks to create a secret reserve by valuing up, or working up or down the valuation of the premises?—A. Frequently in the bank buildings, yes.

Q. In other respects?—A. Frequently.

*By Mr. Hanson:*

Q. Do they frequently do that in regard to other securities?—A. We require that all the assets be carried on the books of the bank. Of course, these accounts are sometimes built up, but if we discover them, we require them to be shown on the books.

Q. Are they ever written down to secure secret reserves?—A. If so, we require them to be placed at their legitimate value. You are speaking of bonds and securities?

Q. Yes.

*By the Chairman:*

Q. If you discover that the assets of a bank have been written down so as to create a secret reserve, there is objection to that?—A. Seriously.

Q. You require that they show on the returns the actual value?—A. Yes, except with regard to banking houses which are there to speak for themselves.

Q. If you discover in your inspection of the real estate and buildings where the banking houses have been written down, you would not object to that written down valuation?—A. No, we would not object to that, but in any other assets we would object; we would require them to be put on the books at a fair value.

*By Mr. Woodsworth:*

Q. How many classes of collateral are distinguished in that schedule?—A. There is simply a schedule here for bonds and securities. Did you say classes of collateral?

Q. Yes, how many classes of collateral are distinguished in the schedule?—A. In the bonds and securities, do you mean?

Q. In the schedule mentioned by you a little while ago, are there different classes of collateral mentioned?—A. That is, as to the general character of collaterals?

Q. Yes.—A. There are no schedules. That is merely a guide for the examiner. In the office of the bank he would schedule the predominant kind of collateral, and if he found much collateral in certain classes of stocks, and that sort of thing, he would bring that out in his examination and in his reports. Other particulars of cash items are, of course, carefully gone into. "Capital Stock"—The National Bank is not permitted to own shares of its own stock. If it does acquire any, it has to be disposed of within six months.

*By Mr. W. F. Maclean:*

Q. It cannot hold its own stock for a pension fund?—A. It cannot hold its own stock for any purpose longer than six months and then it has to be sold by public auction.

[Mr. John W. Pole.]



## APPENDIX No. 1

*By Mr. Coote:*

Q. Can it hold the stock of other banks?—A. As collateral only. It may not own stock in other banks.

Q. May it own stock of a trust company that is merely subsidiary?—A. It may not, no.

*By Mr. Woodsworth:*

Q. Is the holding of stock deemed to be a basis for credit?—A. You mean in the bank?

Q. Yes.—A. Not at all; a bank cannot lend on its own stock.

*By Mr. Hanson:*

Q. But another bank can handle that?—A. Yes, another bank can handle that.

Q. Is there any double liability for a bank?—A. There is.

Q. Do you recommend a retention of that?—A. By all means.

*By Mr. Woodsworth:*

Q. How are you able to enforce payment of the double liability?—A. That payment may be enforced by the Receiver, or the creditors themselves may bring in a bill for the enforcement of the double liability, in the case of an insolvent bank. Of course, in the case of a bank whose capital is impaired, while a bank may not be insolvent, its capital can be impaired, and the double liability is enforceable in those circumstances.

*By Mr. Shaw:*

Q. Even without a bank becoming insolvent?—A. Even without a bank becoming insolvent. If the capital becomes impaired, the assessment notice may be served upon the shareholders.

*By the Chairman:*

Q. Is it done in practice?—A. Oh yes, very, very frequently.

*By Mr. W. F. Maclean:*

Q. Under the law, is that the practice?—A. That is a provision of the Bank Act.

Mr. McMASTER: May I suggest to the members that the witness has not yet finished his evidence on inspection.

*By Mr. W. F. Maclean:*

Q. There is a bill, I think you said, before Congress?—A. Yes.

Q. Does that provide for a consolidation of the whole system up to date?—A. I would say that it is the National Bank Act brought up to date. I would not say that it is a consolidation of any systems.

Q. It brings it up to date?—A. It brings it right up to date.

Q. And it is likely to go through?—A. Well, I think so, though it is pretty hard to tell now.

Q. It has provision in it for the protection of the public?—A. Yes, it has; very marked improvements.

The CHAIRMAN: I would suggest that Mr. Pole be allowed to complete his statement in respect to bank inspection and then members will be permitted to ask him questions on any points that suggest themselves.

WITNESS: I come now to the question of dividends and surplus. The report of the examiner requires "Date of declaration of last dividend; when reported; was it semi-annual or quarterly." After each dividend period the bank, under the law, has to submit to the Comptroller of Currency a report of earnings and dividends. I will file this as EXHIBIT No. 3. That report of

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earnings and dividends is carefully inspected by the examiner at the date of the examination which follows the declaration of that dividend. Then there is the question "Whether the bank includes all interest received with gross earnings, and all interest paid with expenses; state whether any profits are irregularly carried on the individual ledger, in special accounts, or charged off the books." I believe you asked that question as to the building up of this surplus on one thing and another. With regard to itemized expense accounts, these are, of course, inspected by the examiner and any items which seem to be irregular are further looked into. Then there is the question, "Do the directors or examining committee approve expense account periodically, and, if so, how frequently; do the minutes record such action; did you inspect all earnings accounts from date of last examination; state amount of losses charged off since last examination on loans and bonds, and state amount recovered on charged-off assets since last examination." Then we come to the items in regard to individual deposits. "State minimum and maximum rate of interest paid on open accounts. What is the rate on certificates of deposit? State whether a proper record of all certificates of deposit, cashiers' cheques and certified cheques issued is regularly kept," and so on. "If this bank conducts a savings department, give method of verifying pass-books and rate of interest, and state whether interest is paid quarterly, semi-annually or annually," and that sort of thing. Then as to previous notice of withdrawal of savings deposits, "Give total of dormant ledger; how are withdrawals safeguarded?; State whether surrendered certificates are properly cancelled and filed in numerical order for auditing; state whether certificates, cashiers' cheques, certified cheques, individual savings, and dormant ledgers were audited at this examination, and were certificates of deposit checked against list taken at previous examination." As to surrendered certificates of deposit, as to the cancellation and filing of certificates, as to cashier's cheques, individual savings and dormant ledgers, we go into these things very carefully. "State whether a numerical list of outstanding certificates of deposit was made for use at the next examination." Our examiners carry with them away from the bank a list of their own covering the certificates of deposit so that they may not depend on the banks' account for them.

"Rediscounts and borrowed money—Has the bank any liabilities which are not shown on the books? Does the bank borrow habitually, and if so, whether from Federal Reserve Bank or elsewhere?" Then comes a list of the liabilities for money borrowed whether it is on bills payable or on rediscounts, or on open accounts, or certificates of deposit, or bonds sold under re-purchase agreement or otherwise. They have to give particulars with reference to that, the date of borrowing, the date of maturity, the interest rate, the security pledge and the form of borrowing, whether authorized by the Board of Directors; the grand total of those borrowings from the Federal Reserve Bank or the War Finance Corporation or any other source.

The next items are in regard to "Books and Accounts." As to the general ledger, "By whom kept?" and a great many other questions of a clerical nature which would be asked in any ordinary examination.

*By Mr. W. F. Maclean:*

Q. Is this form complied with in every case, or only when an examiner comes in? Or is it the general practice?—A. This report is made by the examiner only. There is no form of report of this character sent to the bank for submission to the Comptroller. That is what you mean, is it?

Q. Yes.—A. No.

Q. There is no regular examination?—A. The examinations are made at irregular intervals.

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Q. Then there may be some banks that do not come under that?—A. All of them. Every National Bank is examined twice a year.

Q. It is a regular system then that they have to comply with?—A. They are regularly examined twice a year but at irregular periods.

The next heading is "Information in connection with management and supervision by directors—State how often directors meet as a board, and day of week or date of month usually held; in what manner do they authorize or approve loans or discounts?; state whether they have an active discount committee; are their meetings and actions properly recorded?; state whether they have an active examining committee; is a complete and satisfactory report on file."

*By Mr. McMaster:*

Q. These questions would pre-suppose that directors were directing a bank?

MR. W. F. MACLEAN: It is to find out whether they do or not.

WITNESS: I do not know; we do not go so far as to pre-suppose that the directors do direct; we rather pre-suppose that they do not direct.

*By Mr. Hanson:*

Q. What is the result; do you ascertain that they do direct?—A. That is the purpose of this question, to find out whether or not the directors are really directing the bank, although it does not cover the whole subject.

*By Mr. McMaster:*

Q. For instance, the discount committee, that pre-supposes that the action of the directors in regard to on paper presented for discount is passed upon?—A. Here is question No. 3. "State whether they have an active discount committee," and if so, "Are their meetings and actions properly recorded?" No, unfortunately, we cannot assume that the directors always direct.

*By Mr. Hughes:*

Q. Would the discount committee be necessarily composed of the directors?—A. Directors or officers of the bank; probably two or three directors and an active officer or two, but not composed entirely of active officers of the bank.

Q. And not composed entirely of directors either?—A. Probably, at least one officer of the bank.

*By Mr. Woodsworth:*

Q. Is there any limit to the amount that may be borrowed by directors or officers?—A. They are precisely in the same position as any other borrower, there is no distinction made between directors and other borrowers.

*By Mr. Hanson:*

Q. Is there any limitation to the borrowing powers of the officers?—A. None at all, except as may be regulated by the bank itself, which is frequently done; and it is frequently put into by-laws that directors' loans, for instance, shall be supported by adequate collateral, that there shall be no open lines to directors.

*By Mr. McMaster:*

Q. No open lines?—A. No unsecured loans to directors. That may be the case, and sometimes is, but not under the Bank Act. It is a regulation of the Board in their by-laws. As to whether or not the minutes record the action which is taken on the report of the last examination, this report of the examination is returned to the bank, and the directors are expected to at least read it, and be guided by it; and it is required that they note in the minutes just such action as may have been taken in regard to it.



*By Mr. Woodsworth:*

Q. Has any suggestion ever been made that there should be a limit to the amount which may be borrowed by directors or officers?—A. I do not know whether that has been done. Of course, the State laws cover that very frequently, but it is usually nullified by some clause which requires a two-third vote of the directors. No director may borrow beyond a certain amount unless he has a vote of two-thirds of the members of the Board, or something of that kind, which, of course, does not amount to very much.

*By Mr. Millar:*

Q. Is there a tendency on the part of the weaker banks to pay dividends in excess of earnings?—A. Yes, there is.

*By Mr. Hughes:*

Q. National Banks?—A. National Banks. I understood you to say a disposition.

Mr. MILLAR: Yes.

*By Mr. Hanson:*

Q. Are they allowed to pay a dividend for the current year unless they earn it?—A. Yes, provided their surplus account is in excess of 20 per cent of the Bank's capital. But that is a stationary or legal surplus, and cannot be touched for dividend purposes.

*By Mr. W. F. Maclean:*

Q. If a bank is headed in the wrong direction, would two of your inspections under this system—A. Develop it?

Q. Would they expose it, or protect the public in connection with it? Would two inspections pretty well ascertain that fact, that it was heading the wrong way in view of the bank examiner?—A. Well, there might be conditions which within a year might not definitely determine that a bank was headed in the wrong direction. The general trend might be upward. At the same time, there might be a temporary back-set, and it would be hardly fair to say that the bank was on the down-grade. There might be a temporary depression of some kind which might affect the bank.

Q. But the average, you would actually catch it?—A. Well, of course, if it would demonstrate the fact that it was on the down-grade within the year, yes. It might have four examinations in that time or more if the decline were marked.

*By Hon. Mr. Crerar:*

Q. How many National Banks are there?—A. 8,300.

Q. How many failures have you had in the last three years?—A. Last year was a record year. There were 79 National Banks closed last year.

Q. Out of 8,000?—A. 8,300.

Q. Were these banks subject to the inspection you have just told us about?—A. Yes, they were.

Q. How do you account for the failures? What is the reason?—A. Very largely those failures were confined to the North West.

Q. In the agricultural area?—A. In the agricultural districts and down through the Central States to New Mexico and the cattle country. The decline of prices was so great, and land values and the value of every commodity shrunk to the point that the paper became valueless. Of course, there were instances of certain large defalcations.

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*By Mr. McMaster:*

Q. Did they account for any substantial number of the 79?—A. The defalcations?

Q. Yes.—A. No, not a substantial number.

*By Mr. Shaw:*

Q. Did the depositors lose in every one of those cases?—A. No, by no means.

Q. In what proportion of the 79 would you say the depositors lost?—A. I should say in 50 per cent of them.

Q. And in the remaining 50 per cent, I suppose they will not all lose 100 cents in the dollar?—A. No, I do not think that in any case they will lose 100 cents on the dollar; not all in any case.

Q. When you speak about failure, do you mean by that that the bank closed its doors?—A. Yes, the bank is taken charge of by the Comptroller.

Q. You are going to tell us of the closing up by the Comptroller before you get through?—A. Yes.

*By Mr. McMaster:*

Q. Can you give us the aggregate capital of those banks that failed in comparison with the aggregate capital of the whole 8,000?—A. It is negligible. I am not prepared to give those figures at the moment.

*By Mr. Shaw:*

Q. Could you send them to us?—A. Yes. They were published in the Comptroller's report, and I will be glad to submit them to you.

*By Mr. Marler:*

Q. Those particular banks were operating, I suppose, or lending on certain specified commodities in those particular districts; did that account for the failures?—A. Not altogether, because the truth of the matter was, that the banks were lending on no commodity at all as a general thing. Those were small country banks; a large number of those 79 banks were country banks, which had lent money to farmers whose prospects were good at the time they lent the money, but who had successive crop failures of one kind and another, not secured as a general thing by commodities, but more upon paper for agricultural purposes.

Q. To a particular class of people?—A. Usually farmers.

*By Mr. W. F. Maclean:*

Q. That has been a marked feature of recent years, the failure of farmers and the decline in their prices?—A. Yes. Of course, there has never been a time when there were more failures; that was a record year for bank failures, last year.

*By Mr. Woodsworth:*

Q. Could you give us any idea of the percentage of double liability which could be collected in those 79 failures?—A. I should say 50 per cent.

*By Mr. Marler:*

Q. Have those banks access to the Federal Reserve Bank?—A. Those National Banks are members perforce of the Federal Reserve System.

Q. And they had all the advantage of that system?—A. They had all the advantages of the system.

*By Mr. W. F. Maclean:*

Q. In the case of a member bank having to file a statement of its condition to the Central Reserve Bank, is not every member more or less a check on

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every other member bank by reason of that information being in possession of the head National Reserve Bank in that region?—A. You are speaking of Federal Reserve Banks themselves?

Q. No, the member banks. Each member bank has to give a statement to the Central Reserve?—A. Yes.

Q. Is not that information available to every member bank?—A. Oh no, not at all.

Q. One bank could check all the other banks?—A: Not in any sense.

The CHAIRMAN: May I suggest that we carry on with the witness's statement on the bank inspection.

Hon. Mr. STEVENS: I was the one to suggest that procedure, but I would like to ask one or two questions.

The CHAIRMAN: I would like to give you all an opportunity, but I think we will make more headway, and the evidence will be more intelligible, if the witness is allowed to go on. I think hon. gentlemen will be in a better position to put questions they have in mind if they would follow that rule.

Hon. Mr. STEVENS: Try to make the application of that rule general, Mr. Chairman.

The CHAIRMAN: I shall do my best.

Mr. HUGHES: With all due respect, I think that occasional short questions bring out the point better.

The CHAIRMAN: I will ask the witness to carry on with his statement as to bank inspection.

WITNESS: In regard to the question of information in connection with the management and supervision by directors, we come to the question of whether or not loans and discounts to the firms and corporations in which directors are interested, are specially acted upon by the Board, and as to whether by-laws are declared and their provisions observed; as to whether important letters from the Comptroller to the bank are filed in the minutes. That is in reference to letters and correspondence which may be conducted in following the examination of the bank and on which the directors are expected to be advised and informed.

Then we come to the section with regard to affiliations "State whether there is any affiliation with any State Bank, savings bank or trust company through a controlling ownership of stock by the same shareholders, by practically the same management, or in any other manner, giving the name of affiliated bank." "If transfer of certificate of stock of the National Bank transfer ownership of stock of the affiliated bank, state that fact." "State whether stock of affiliated bank owned by shareholders of National Bank is held by them individually or as a corporation." "State whether stock of affiliated bank is trustee for benefit of shareholders of National Bank." "State whether any director or other officer of this bank is an officer of any other bank", and so on.

Then comes the recapitulation as to the "slow", "doubtful", "losses", estimated value of assets not shown on the books, and under these various headings "Bad debts, other overdue papers, all other loans and discounts, overdrafts, premium on United States bond, bonds, securities," etc., banking house, furniture and fixtures, other real estate, cash items, shortages, judgments, unpaid bills, etc., as to whether estimated losses were charged off at the conclusion of the examination. After that examination has been completed, the examiner in case the bank is in an unsatisfactory condition, and has losses of consequence, is expected to call the Board together and discuss these various problems with the Board with a view to getting correction, and it is expected that the Board will pass a resolution at that meeting charging off the losses which the examiner

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has estimated. He then lists his criticisms, if any, with regard to the bank, as to the bank's assets, or the management, or anything else.

That constitutes the form of examination which is returned to the bank. The bank has a copy of that examination, but there also goes to the Federal Reserve Bank, and comes to the Comptroller's office what is known as "a supplemental report of examination" which is all confidential. It does not go to the bank. In fact, the bank does not know there is any confidential section in the report on the examination. This covers some rather important things which I think will be of interest to you, with regard to the salaries of officers and employees, the position of various officers and the directors and their yearly salaries to all employees, so it gives you the entire salary list of the bank; the estimated worth of each director; as to whether or not their financial statements are on file, as it is expected they will be; as to whether or not the bank holds any large state, county, municipal or insular possession balances, subject to cheque, and the rates of interest paid on them.

Then, of course at regular intervals three times during the year the Comptroller calls for a complete report of the bank's conditions, which is a rather voluminous report. That report is filed in Washington and is sworn to by the officers of the bank, and is checked by the examiner when he returns to the bank.

*By Mr. Hughes:*

Q. That report is made by the officers of the bank?—A. That report is made by the officers of the bank.

*By Mr. McMaster:*

Q. How often did you say, sir?—A. Three times a year, or more often.

*By Mr. Woodsworth:*

Q. Before the report is completed, is there any consultation between the inspector and the officers?—A. Before this report? Oh, yes. At the conclusion of the examination he will call in the active officers of the bank, or the directors, if it is a matter of consequence. Of course, if it is a matter which can be corrected by the officers, well and good because if a bank is in satisfactory shape there is no need of calling in the directors, but if there is anything that is not running nicely the directors are expected to hold their meeting with the examiner for the purpose of discussing these various things.

*By Mr. Hughes:*

Q. Did I understand you to say that a copy of the report made by the examiner is given to the bank?—A. Yes, sir.

Q. Nothing confidential?—A. No.

*By Mr. Woodsworth:*

Q. In the case of a bank failure would the report of the inspectors afford any indication to the depositors of a growing weakness?—A. No, the depositors would have no access to that.

*By Mr. Coote:*

Q. Would the shareholders have access to that?—A. The shareholders might have.

Q. But only if they asked for it?—A. Only if they asked for it. The directors, of course, would be expected to be informed on the contents of the forms.

*By Mr. Marler:*

Q. Where are these reports published?—A. Where are they published?

Q. Yes?—A. They are put up in typewritten form in the office of the Chief Examiner of the district from which they emanate. There are five copies only of them.

Q. No obligation for publication in any official newspaper?—A. No.

*By Mr. Woodsworth:*

Q. Is the Comptroller under any obligation to give the public any idea as to the general tendency of any bank, if there is a weakness there?—A. Yes, sir. Are you referring to the reports which the Comptroller calls for, which are made by the officers of the bank at least three times a year? Of course, that has to be published, not in detail, but the face of the report; the bank's statement has to be published in accordance with a certain form, Exhibit number—whatever it is, but the report of the examination is not published.

*By Mr. Marler:*

Q. That is confidential?—A. It is more or less confidential.

*By Mr. Woodsworth:*

Q. My question was as to whether the Comptroller was under any obligation in a case of a bank evidently on the wrong line to give that information to the public. Is there any provision for that at all?—A. No, there is not. Of course, if the capital of the bank is impaired then it is incumbent upon the Comptroller of the Currency to see that it is re-established, but as to the condition of the slow paper, or paper which is unsatisfactory but not estimated as a loss, for instance, the public would have no means of knowing that at all.

The CHAIRMAN: Mr. Stevens, you have some questions I believe you wanted to ask.

Mr. STEVENS: I have several of them.

The CHAIRMAN: You may proceed.

*By Hon. Mr. Stevens:*

Q. I have several questions I would like to ask. First, in regard to the failures. I happen to have a Dunn's report in my hand and it corroborates your statement as to last year—I think you said seventy-nine?—A. I was speaking from recollection.

Q. As a matter of fact it was seventy-seven, with \$36,568,000 liability.

*By Mr. Maclean:*

Q. What is the total?

Hon. Mr. STEVENS: That is the total liability of the National Banks.

The WITNESS: The total liability of the seventy-seven banks.

*By Hon. Mr. Stevens:*

Q. Then there were five hundred and one state banks with \$167,000,000 liabilities which failed last year. Your department has nothing to do with the State Banks?—A. Nothing whatever.

Q. They have separate State examiners?—A. Separate State examiners.

Q. Appointed by the State authorities?—A. Appointed by the State authorities.

Q. Could you tell me this although it may not be within your knowledge, each State has a separate state law and system of examination?—A. That is correct.

Q. Peculiar to itself?—A. Yes.

Q. And as a matter of fact there are a great variety of systems among the State examiners, under the State laws?—A. Yes, a wide variety.

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Q. I also have Dun's report for the first four months of this year, and please understand I am not offering this in criticism of anything you have said?—A. I appreciate that.

Q. I simply want to bring out the facts, because they are very important to us. Dun's report for the first four months of this year show sixty-four National Banks failing with a liability of \$40,600,000. Is that correct?—A. I would say that is about correct.

Q. And three hundred and eleven State banks?

Mr. SPENCER: . Out of how many?

The WITNESS: Twenty-two thousand.

Hon. Mr. STEVENS: I have it here. There are eight thousand National Banks, and a large number of State Banks.

The WITNESS: Twenty-one thousand nine hundred last year.

Mr. SHAW: Mr. Stevens, may I interrupt you to ask if you have figures indicating the assets of these National Banks?

Hon. Mr. STEVENS: No, it is not indicated in Dun's report.

*By Mr. Shaw:*

Q. Have you those, Mr. Pole?—A. The character of the assets?

Q. No, the total value?—A. Yes.

Q. Perhaps you could leave that with us?—A. Yes, I would be glad to.

*By Mr. Maclean:*

Q. And the total capitalization of the State Banks?—A. I think Mr. Stevens said \$36,000,000.

Hon. Mr. STEVENS: \$36,568,000 in the National Banks and \$167,170,000 for the State Banks.

Mr. SHAW: Those are liabilities, not assets.

Hon. Mr. STEVENS: Liabilities.

Mr. SHAW: We want the assets of these banks.

Hon. Mr. STEVENS: This is Dun's report. I do not know whether Dun would give the liabilities over assets. Anyway, these banks failed; they are insolvent, and we may reasonably assume they would indicate pretty much their liability to the public.

The WITNESS: When you say "their assets" you mean their assets of value?

Mr. SHAW: Yes.

The WITNESS: That would be pretty difficult to determine until the receiverships would be wound up.

Mr. SHAW: I thought you might have an estimate of that.

The WITNESS: It is practically impossible to make an estimate of that. We have no estimate of that.

*By Hon. Mr. Stevens:*

Q. When you are filing your statement which you so kindly indicated you would do, would you mind filing the number of National Banks that have failed, say, during the past six years?—A. I would be glad to.

Q. And their liabilities and assets, as suggested?—A. I would be glad to.

Q. In connection with the examination of the banks under the National Bank Inspection System, am I correct in suggesting or saying that it is quite impossible to prevent failure?—A. You are correct in making that statement.

Q. You are speaking of course from a wide experience, as we know?—A. Yes.

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Q. And you agree with that statement?—A. I do.

Q. I know now that I am on controversial ground as far as this Committee is concerned, but what I am really after is to get the truth and not necessarily to bolster up any particular theory, although some may think I am after theories rather than the truth—

Mr. McMASTER: Even with appearances to the contrary?

Hon. Mr. STEVENS: I want to get the truth. Do you think it would be possible to improve, for instance, the American examination system so as to prevent failures and losses?

WITNESS: I don't think it would.

Mr. MACLEAN: But perhaps to minimize it.

*By Hon. Mr. Stevens:*

Q. Now, another question along that line. You make an inspection twice a year, or perhaps three or four times a year if a bank is not in an entirely satisfactory shape?—A. Yes.

Q. Well now, when you make, we will say, the first inspection and you notice something is weakening in the bank's operations, at what point does the Comptroller of the Currency step in and declare the bank insolvent? What guides him in that?—A. When does he step in to declare the bank insolvent?

Q. Yes; take it over, under the law?—A. Of course, it is a far cry from a bank which is in an unsatisfactory condition to a bank which is insolvent; and if during the examination there develops perhaps a great deal of slow paper, the summary of this report will indicate that a large proportion of that bank's assets are of a slow character, and you would analyze it precisely as you would analyze a commercial statement, as to the proportion of slow paper which this bank has in ratio to its current liabilities, and that would instantly present itself to you perhaps as being a condition which would warrant the more urgent attention of the Board, and the Comptroller would take that up at that point and try to prevent the bank from slipping down, and endeavour to instil some constructive ideas into the situation, with the end in view that the bank might strengthen itself and further support by collateral such paper which has been listed as "slow", or get that paper out of the bank while there was yet time. That is the first operation.

Q. Quite so, but the next examination, and the succeeding examination might show a progressive decline?—A. Yes.

Q. And it might be a year or a year and half before the Comptroller found it necessary to step in?—A. Yes.

Q. Would that be a fair history of the ordinary failure?—A. I think it might be.

Q. In the meantime the Comptroller does his best through the officers and the institution itself to bring back into a healthy condition?—A. Yes. Of course, while these failures are due in a large measure to prevailing economic conditions, at the same time a very large percentage of them are due perhaps to very poor bank management, and you cannot legislate to prevent that.

Q. No, but to a large degree the judgment of the Comptroller and his chief examiners must be the determining factor as to when a bank should actually be closed?—A. As to whether the bank should be closed?

Q. Yes?—A. Oh yes.

Q. It is a question which rests with the personal decision and estimation of the Comptroller?—A. That is in conjunction with the members of the Board who may be working with the examiner. I mean to say there is usually no arbitrary position taken by the Comptroller.

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*By Mr. Hughes:*

Q. With the Board?—A. The Board of Directors of the Bank. I mean to say that one of our examiners will step into a bank and find it has a large amount of slow and doubtful paper, and he will estimate the number of losses. It will be from his analysis of it perfectly obvious to those directors of the bank who are working with him that his statement is a fair representation of the facts with regard to it, and then these matters are taken up with the full Board, invariably when a bank gets into such a position as that. So it is the combined opinion, not only of the examiner, but the right-thinking members of the Board themselves who are willing to place a fair estimate on these assets, which leads the examiner to his determination.

*By Hon. Mr. Stevens:*

Q. Just on that point: you have in that report a clause, or a heading, under which examiners offer their criticisms?—A. Yes.

Q. In your experience as a chief examiner do you find it is a common or uncommon occurrence for examiners in their written reports to make adverse criticism?—A. Common.

Q. Quite common?—A. Very, very common. In fact, if things are running along smoothly it has not been the custom to pay any attention to it at all, because the ground is taken that it is no more than a bank's duty to conduct its business properly, and there are no compliments paid to the bank at all.

Q. But adverse criticisms are quite common?—A. Yes.

*By Mr. Maclean:*

Q. Even of savings banks, as a matter of fact?—A. Yes.

*By Hon. Mr. Stevens:*

Q. There is another question I would like to ask you while we are on that. You know our system, I suppose, fairly well. Do you think that the system of bank examination now in effect with regard to the National Banks of the United States is applicable to the Canadian banking system?—A. I should hesitate to answer that question because I am not really very familiar with your system, but in a general way, I would say it is inapplicable.

Q. I will preface my next question with the statement that we have a dual audit system here; that is, each bank under the new law which was passed last year has two auditors, each distinct from the other—separate firms. They make a report to the directors and general managers and so on. Would you consider that that audit by the auditors of Canadian banks approximated the examination made by the National Bank examiners in the United States?—A. Not at all, sir.

Q. Would you mind indicating what, in your opinion, would be the difference?—A. Because I take it that the audits which you refer to are the audits of accounts, and that sort of thing, and it is more a checking up of figures than an appraisal of assets. Am I correct in that?

Q. Scarcely. I think perhaps the question would be unfair unless I gave you the full details of the law under which our auditors act, which of course would be impossible just now. If you would not mind this afternoon or some time before you leave running over our auditors' duties and then answering the question I think it would be of great value to this Committee.

The CHAIRMAN: I would suggest if Mr. Edwards is here that he have a conference with the witness to go into this matter, and the witness will then be in a better position to make a comparison, perhaps to-morrow.

The WITNESS: I should like to do that. Is Mr. Edwards your Banking Commissioner?

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The CHAIRMAN: No, he is the advisor to the Minister of Finance.

The WITNESS: May I say a word there, please? The examinations of the Comptroller of the Currency are not audits—

Mr. MACLEAN: That is the point.

The WITNESS: A large majority of banks in addition to the examinations each year made by the Comptroller, employ auditing concerns to analyze their affairs once or twice a year; people like Marwick, Mitchell, Peet & Company, and other large auditing concerns.

*By Mr. Marler:*

Q. Chartered accountants?—A. Chartered accountants.

*By Hon. Mr. Stevens:*

Q. Would the Comptroller of the Currency or his chief examiner accept the report of these auditors as to the accuracy of the accounts?—A. Yes.

Q. And base their examinations— —A. No. The directors under the law are required to understand the internal matters in connection with the bank which they are directing, and in order that they may comply with the law in that respect, it is necessary they make an examination of the bank in order that they may be advised, but they have been permitted to employ these firms of accountants to assist them in making these examinations, and it is usually in that manner in which these accountants are employed.

Q. Would they be permitted to employ an accountant who was the auditor of the bank?—A. No.

Q. They would have to have another firm?—A. The Comptroller would have no objection to the bank making any number of examinations of any character they felt disposed to make, but it would not be accepted by his Bureau.

Q. Now, a word in regard to real estate. Are the banks compelled to carry the real estate at its present value? Supposing a bank in New York owned and occupied property in Fifth avenue, or in Forty-second street, or some other expensive locality, but had occupied that property for thirty years and originally bought it rather cheap; would they carry it on the books at cost or each year write it up as its assessed valuation increased?—A. That is a very unusual case you are citing. In case the bank owned a piece of property like that the probabilities are there would be a definite market valuation placed upon it.

Q. Is it obligatory for them, under the law, to maintain a property account of present value?—A. In a general sense a bank is required to show on its asset list the true value of its assets. There is no particular reference made to real estate.

*By Hon. Mr. Cramer:*

Q. Does the law permit you to write it up?—A. Yes, they may carry that asset at a fair value.

*By Hon. Mr. Stevens:*

Q. You may not be able to answer officially for the Comptroller of the Currency, but from your own position as a chief examiner you are very familiar with the banking business of the United States. Are you favourable to a scheme of a government guarantee of deposits?—A. By no means.

Q. Would you mind indicating in one or two ways your objection?—A. I must cite the experience of those states, of which there are several, which have undertaken to guarantee deposits and which have been universally a failure. The State of Mississippi for instance.

*By Mr. Spencer:*

Q. The guarantee of deposits in private institutions?—A. The State Banks; not private institutions.

[Mr. John W. Pole.]



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Q. You were not talking about guaranteeing deposits in Government institutions?—A. No, I am not saying that, but that is what brought up the question.

*By Hon. Mr. Stevens:*

Q. I was speaking of American banks.—A. Yes. The State of Mississippi has a guarantee law and the fund is now in such condition that I think it would take fifty years at the full assessment under the law to meet its present liabilities. The values have reached a point where the guarantee fund is insufficient to pay the warrants outstanding against it. Under the system, when a bank fails, the State issues its warrants, which draw six per cent, until these assets have been liquidated, so that the Treasury may be reimbursed, and these warrants paid in numerical order. They are \$2,000,000 behind now, and I think they are going to annul the law.

Q. Do you know of any indication that where a State guaranteed the deposits there was any noticeable slackening of effort and care on the part of the bankers?—A. I am not in a position to speak of that.

Hon. Mr. STEVENS: Perhaps the question is not a fair one.

Q. What you said in regard to being opposed to guaranteeing bank deposits applies to the National Bank system as well as to the State?—A. As well as to the State.

Hon. Mr. ROBB: I might not be here this afternoon and I would like to ask a question.

Q. You are Chief Examiner of the Federal Banks of the United States, Mr. Pole?—A. No, the National Banks. When you say "Federal," I take it you mean the Federal Reserve?

Q. Yes?—A. No; the Federal Reserve Banks have a system of their own.

Q. Would you mind filing with this Committee, or sending it to me for reference in the Department, the statutory or written authority of your office, showing the extent of the authority, and also the limitations of the Chief Examiner?—A. Of our office?

Q. Yes?—A. Yes.

Hon. Mr. STEVENS: That would be in the Bank Act, Mr. Minister.

Mr. MACLEAN: But his powers are almost unlimited.

Hon. Mr. ROBB: I want to get at that. I want his limitations.

The WITNESS: I shall be glad to.

The Committee adjourned.

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., Mr. Vien in the Chair.

The CHAIRMAN: Mr. Pole will proceed with his statement.

Mr. W. F. MACLEAN: May I ask a question?

The CHAIRMAN: Yes.

*By Mr. Maclean:*

Q. I would like to ask the witness whether the State banks that are member banks of the Federal Reserve Bank are subject to that system of inspection?—A. They are subject, of course,—

Q. I mean subject to examination?—A. Yes, they are subject, of course, to the examination by the State authorities; in addition to which the Federal Reserve Bank may examine them at any time.

[Mr. John W. Pole.]

Q. Do you frequently do so?—A. It is frequently done. The Comptroller's bureau has no jurisdiction over State banks in any capacity. That is done by the Federal Bank examiners. They may accept the State report of the examination.

Q. But the Federal Bank examiners may examine?—A. The Federal Bank examiners may do so.

Q. Now, I would like to ask the witness whether any system of mere audit by banks would effect what his National examination does?—A. Would you please repeat that question?

Q. Would any system of audit by banks effect what your system effects, in the way of examination? Would that be satisfactory to the public?—A. It would not be satisfactory to the Comptroller.

Q. Or to the American public?—A. Or to the American public, because that is a system of individual banks, and we go into a bank and make our own figures and draw our own conclusions from those figures.

Q. Is it your opinion that your system of Federal examination has been of great service to the public of the United States?—A. Undoubtedly; it has saved many banks.

Q. And would you associate with that the rediscounting by the Reserve Bank System?—A. Yes, that has been extremely valuable to the country.

Q. The third thing is, would you consider that a National Note currency is also part of that National system?—A. Part of that National system.

*By Mr. Hughes:*

Q. Upon what system do the National Banks issue their credits? What security is behind the notes that they issue?—A. The National Bank circulation is secured by Government bonds solely. In fact, the National Bank System was the outgrowth of an effort on the part of the Government to provide a market for its bonds, in 1863, and the banks purchased the bonds; they deposited them with the Treasury and issued circulation against them.

Q. To what extent?—A. To the extent of their capital.

Q. What percentage of the bonds?—A. To the extent of the bank's capital.

*By Mr. McMaster:*

Q. But how many bonds did you have to have?—A. We could issue the currency and bonds at par.

*By Mr. W. F. Maclean:*

Q. Is that a National Note Currency, or a currency of the banks?—A. There is no bank circulation other than that. There is a 10 per cent tax on State Bank circulation, which makes it prohibitive, and that is entirely gone.

*By Mr. Hughes:*

Q. Some few years ago, if I understand the system correctly, the banks issued their own notes up to 90 per cent of the par value of the Government bond?—A. That was many many years ago, sir; that was in the earlier stages, in the sixties and seventies.

Q. I think it was later than that; I think that system was followed later than that?—A. Perhaps it was later than that, but it is a number of years since that system was in vogue, quite a number of years.

Q. What is the system now?—A. The system is that they may issue circulation against Government bonds at par.

Q. Up to the par value of the bonds?—A. Up to the par value of the bonds.

Q. But the banks issue their own notes?—A. Yes.

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*By Mr. W. F. Maclean:*

Q. Is there no mark on those notes in the United States?—A. The form is prescribed by the Government. The Government has its own name on the notes, and they are furnished by the Government at the expense of the bank.

Q. And the Federal Government knows exactly the amount of that issue?—A. Oh yes.

*By Mr. McMaster:*

Q. The issue cannot be greater than the capital of the bank?—A. Yes.

Q. And it must be secured dollar for dollar by Government bonds?—A. Government bonds, which bonds may bear the circulation privilege. For instance, two per cent Consuls, or Government Fours are the only bonds which have the circulation privilege. All other Government bonds do not have it. For instance, the Liberty issues do not bear the circulation privilege.

*By Mr. Shaw:*

Q. What do you mean by the circulation privilege?—A. You are not permitted to deposit those bonds and issue circulation against them.

*By Mr. Ladner:*

Q. What was the proportion in the larger banks between the capital of the banks and the liabilities to the public? At about what percentage did they run?—A. I would say an average of about ten for one. In fact, it is a sort of regulation of the Comptroller's office, if a bank's liability, if it's deposit liability becomes greater than ten times its capital, we advise the bank to consider increasing its capital.

Q. I suppose you know that under our system the banks give returns monthly in regard to their liabilities to the public?—A. Yes.

Q. They include practically all liability outside capital. Would the ten to one you refer to include that class of liability?—A. No, I would not say so; that is, it is a deposit liability of ten to one.

Q. That is all classes of deposits?—A. All classes of deposits, yes. It would not include liabilities for borrowed money or anything of that kind. Of course, that is not a fixed amount at all, that is merely the ratio which an effort is made to maintain, that ten for one ratio.

Q. Would that be a sort of understood rule for all banks?—A. I am speaking of National Banks.

*By Mr. Hughes:*

Q. In answer to Mr. Stevens you stated that you would be opposed to the principle of banks guaranteeing each other's deposits, that it had worked out badly in the United States?—A. Yes.

Q. And for that reason, and perhaps for other reasons, you thought the principle was unsound?—A. Yes.

Q. It was entirely limited in the United States to State banks?—A. Yes, entirely.

Q. It was never tried in the National banks in the country?—A. No, although it has been advocated by various comptrollers.

Q. With respect to the State banks in the United States in which the system was tried, could you give the Committee any idea, approximately, of the capital of those banks, say the lowest and the highest, or something of that kind; to give us an approximate idea of the capital of the banks that adopted that system and found it unworkable?—A. Yes, I can; I can say from a minimum capital of \$10,000 to banks with a capital of \$500,000.

[Mr. John W. Pole.]



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Q. That was a guarantee of all the deposits of all the banks?—A. Well now, of course, the deposit law varies in the different States, you know. There is no uniform deposit guarantee law. For instance, the deposit law in Oklahoma is one thing and the deposit law in Texas is another. In some States it is possible for a bank to be a subscriber to that deposit guarantee law. It is optional, whereas it is required in other States, you see.

Q. It is compulsory in some States and not in others?—A. Compulsory in some States, and voluntary in others.

Q. I think you also stated that in your opinion it would be just as unworkable in respect to National banks as it was found to be in regard to State banks?—A. I see no reason why there should be any difference, unless there was some system of Government guarantee, which of course, would make that guarantee absolutely sound.

Q. That would be another thing.—A. That would be another thing, of course.

Q. Providing the guarantee was limited as to the amount, would it, in your opinion, be as objectionable? Provided it was limited to—well, bring it as small as you like so that it might protect the small depositors—would you see any merit in that?—A. I am not an advocate of guaranteeing deposits at all, but I think that Mr. Williams has made a study of that question. He is to appear before you, and will probably have a good many statistics which he can offer for the Committee's digestion in support of these things.

Q. You think he could answer these questions better than you?—A. I am sure he could, because during his incumbency as Comptroller of the Currency he was an advocate of government-guaranteed deposits.

Q. I assume I may ask this question, which is really both a question and a suggestion. The banking principles in the United States and Canada are not comparable upon all fours?—A. No.

Q. We having the branch systems here, with a few large institutions?—A. Yes.

Q. Whereas you have a multitude of small institutions?—A. Yes.

Q. And individual banks?—A. Yes.

Q. So that in many respects the systems are not comparable?—A. No. We have thirty thousand banks.

*By Mr. Ladner:*

Q. Did the capital include—A. The surplus? No. I took it you meant capital exclusive of surplus. If you want some definite figures on that I think I can give them to you, if they would be interesting to include in the report.

Q. I think it would be interesting to the Committee if we had them on record.—A. If I file this report with the Committee it will be purely a question of mathematics.

MR. LADNER: I suggest, Mr. Chairman, that this report be filed.

Q. What did you say it dealt with?—A. "An abstract of report of conditions of the National Banks."

*By the Chairman:*

Q. What is the date?—A. It is dated February 5, 1924.

*By Mr. Ladner:*

Q. Now, the guaranteed deposits you have referred to, Mr. Pole, in cases where a number of banks join together to guarantee all the deposits of all the banks in that group. There was a joint and several liability?—A. Yes.

Q. In other words, one bank practically guaranteed the good business for all the other banks?—A. Yes.

[Mr. John W. Pole.]

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Q. That has proven unworkable?—A. I would not say that. I would not go so far as to say that. When you say “guaranteed the good business” I presume you mean really guaranteeing the bad business?

Q. Both, guaranteeing it will be good when it is not?—A. Yes. We have in the United States a certain branch bank system—a chain system—

Q. Let us get it concretely. Where has that arrangement succeeded, if any place, and is it now in operation?—A. Well, it is in operation, yes, where a group of banks is acting under a Guarantee Fund. I have in mind a system of banks comprising about one hundred and eighty-seven—

Q. Are they important banks, some of them?—A. No, they are all small banks.

Q. They have made that union for the purposes of mutual protection?—A. Ostensibly so.

Q. How has it worked out?—A. The banks are all alive and the Guarantee Fund has something to its credit.

Q. Is that Guarantee Fund in the nature of an insurance fund?—A. The banks are assessed so much.

Q. Is their assessment limited?—A. I think it is, yes.

Q. That is, each year they put so much into a fund and that fund stands as a protection to take care of the depositors of any bank which might fail?—A. That is correct.

Q. That scheme is now working and has proven successful?—A. There still is something to the credit of that fund. In the case of the failure of one or two of the members of that system, of course, the Guarantee Fund would not go very far.

Q. That is not the point. It is the results I am speaking about. How would you identify that particular group of one hundred and eighty-seven banks? What do you call them?—A. That is a group of banks which extends from New York to Florida.

Q. What do you call them?

*By the Chairman:*

Q. National Banks or State Banks?—A. National Banks and State Banks.

*By Mr. Ladner:*

Q. In telling your banker friends about them, what would you call them, the—something—kind of a group.—A. I have made this comment on a particular system of banks. Is it necessary to mention the name of that particular group?

Q. No, it is not. I only asked you with the idea that perhaps some of us might care to read it up in the Library. If we want that information perhaps we can get it privately from you?—A. I would be glad to do that.

Q. I submitted to the committee a concrete proposition which I will read to you, and I would like you to comment upon it from your experience with other systems:

“That in the opinion of this Committee the Bank Act should be amended in order to provide for the establishment in the chartered banks of Canada of a special savings account or other class of accounts for savings deposits in addition to those now existing, whereby all holders of deposits in such special savings account in any one bank, or branch thereof, shall be protected or guaranteed against loss up to the sum of \$3,000 according to a similar principle as that now provided for in sections 62 to 69 inclusive of the Bank Act relating to the protection of bank notes by the establishment of a fund known as the Bank Circulation Redemption Fund, or that such special savings account be established in accor-

[Mr. John W. Pole]

dance with some other principle of insurance the premium of which will be paid by the depositors or the chartered banks of Canada, or both, or in such other manner as the committee may consider capable of giving reasonable protection to depositors of money in savings accounts in such sums as the committee may determine."

You will notice there is an important difference in the principle in this suggestion from the general guarantee?—A. Yes, I see.

Q. In other words, the idea is to leave the existing banking institutions as they are and simply establish for those who may have some concern about the safety of the bank, and whose main incentive is protection, an additional class of accounts to those which now exist?—A. Yes.

Q. And that account instead of drawing the present rate of 3 per cent, would draw less than that; it might be 2.7, or 2.8, or 2.5, but the difference between, we will say, 2.7 and the 3 per cent, or whatever figure would be fixed upon an actuarial basis would constitute an insurance to the depositors by building up an Insurance Fund to which the banks might also contribute an equal portion. That Fund would be, to the extent of its resources, the protection of its depositors who were greatly concerned with the safety of their deposits. Business men engaged in large and important businesses, who know the solvency of banks, would no doubt continue under the old system. Is there any such scheme as that in operation in the United States?—A. Well, I know there are systems which might protect the depositors up to that extent, but the scheme does not contemplate that it might only reach to that amount.

Q. It is limited to \$3,000.—A. I see.

Q. If you have more than \$3,000, you are not protected for the excess?—A. I see.

Q. And you must put it into this special class of account, showing that you have a motive for putting it in there for protection, thus giving the public that amount of protection. Can you relate that to any experience in the United States where a comparison would be useful in drawing a conclusion?—A. Of course, it might be said that in a very large number of country banks the probability is that the average deposit is very far below \$3,000—

Q. But you know—

The CHAIRMAN: You do not give the witness time to answer.

Mr. LADNER: But I know what he has in mind.

Mr. SHAW: But we don't.

The CHAIRMAN: We would like to know what the witness has in mind, and I notice that three or four times you have commenced to put other questions before he has completed his answer.

Mr. LADNER: I did it with the idea of shortening the time.

Q. What were you going to say?—A. I was saying that in a very large number of country banks the average deposit would not be over \$3,000, so that it would be tantamount to guaranteeing the whole line of deposits in that country bank.

Q. Have you in mind the country banks of the United States or of Canada?—A. Of the United States.

Mr. LADNER: That is why I interrupted, I thought he was speaking of that. We could have saved all this time.

The WITNESS: I am not posted to any great extent on the Canadian banks.

*By Mr. Ladner:*

Q. We are trying, as far as possible, to apply this to the situation in Canada where we have fourteen main banks, and under the Branch Bank System we have four thousand, four hundred and forty-four branches, or did have a few



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days ago. Now, in a system like that where the deposits are changed a lot, and much of the business is done with the larger offices, even from a distance, is your experience sufficient to enable you to gauge the applicability of a scheme like that to Canada?—A. I can see where it would operate entirely differently in a large system of Branch Banking, from what it would under a system of individual banks. We maintain that any sort of a guarantee of deposits fosters “wild-cat” banking; one bank is just as good as another, and that would not be true under a system of branch banking.

Mr. McMASTER: May I be allowed to interject a question, not to the witness, but to the Chair? Has Mr. Pole finished his general statement?

The CHAIRMAN: That suggested itself to me this morning, but I noticed that despite the fact that we established a rule whereby the witness was to make a statement and finish it, it appeared to be the desire of the Committee that questions should be put, so I did not interfere. But if it meets with the approval of the Committee I would urge that we let Mr. Pole finish his statement, and then we could question him in such manner as may occur to the honourable members.

Mr. McMASTER: You laid down a rule, and we have all more or less broken it, and I was wondering if it would not be well to re-establish it.

The CHAIRMAN: There was another point of order which was suggested to my mind. Mr. Ladner put a notice of motion on the Order Paper for this Committee, on which there has been no discussion, and upon which there is in my mind a question as to its relevancy, inasmuch as there is a similar motion still under discussion before the House.

Mr. LADNER: I withdrew that the other day.

The CHAIRMAN: I did not know that.

Mr. LADNER: May I suggest, Mr. Chairman, that having maintained the continuity so far I be allowed to finish. I will not take very long.

The CHAIRMAN: You may proceed.

*By Mr. Ladner:*

Q. I assume you understand our system of the Bank Circulation Retirement Fund?—A. Yes.

Q. Do you think a scheme like that for accounts of \$3,000 and under, under our Branch System, could be worked out?—A. Under a Branch Banking System I should say that it could.

Q. Now, we have had evidence that owing to certain conditions in Canada—the Home Bank and others—deposits have been going from the smaller banks to the larger banks, so that the four larger banks have approximately 70 per cent of the deposits of the country, and the ten smaller banks have about 30 per cent, and these deposits, according to my information, are still continuing to shift, while the overhead of the small banks continues. Do you think a scheme like this would increase the confidence of the public in the smaller banks as well as in the larger banks?—A. Well, I should say that it would tend to increase the confidence in the smaller banks, by all means. I think it would also tend to increase the confidence in any bank, perhaps, if they were assured that this Guarantee Fund was a fund which would serve its purpose; I mean to say, if it actually guaranteed. Of course, our experience with guarantee funds has been that they do not guarantee.

Q. But take the group you spoke of a moment ago. How long has that been in operation?—A. Quite a number of years.

Q. How many would you say, fifteen or twenty-five?—A. I should say fifteen, yes.

Q. That is still operating successfully?—A. Yes.

[Mr. John W. Pole.]

Q. And the Insurance Fund is still there?—A. There is an Insurance Fund there, yes.

Q. Is it not merely a question of the amount of insurance you have to claim,—based upon experience—the amount of the premium you have to claim?—A. Yes, it necessarily would be.

Q. And that is an insurance of all deposits, is it not?—A. Of all deposits.

Q. Is it not much more probable that where you insure deposits of \$3,000 and under for those people only who select it—not for the people who leave their accounts the way they are—that such a proposal as this would have a much greater chance of success than the group you referred to?—A. I can understand that that might be true, excepting that in the group I referred to the Insurance Fund which is built up would be entirely inadequate to take care of any material number of banks, should anything happen to them, so the mere fact that the banks are still going, we will say, might be taken as evidence that they will continue to go, but if they should meet with misfortune—any number of these banks—it is very patent that the Insurance Fund would be a mere bagatelle as compared with the amounts so guaranteed.

Q. There are people who believe that it would be in the public interest to have a very small number—say four or five—of the large banks with branch systems as against another system of more banks even though they be smaller in capital and in deposit? Does your experience give you any conclusion on that question?—A. I must say that I did not get that question clearly.

Q. Would it be better, for example, in Canada or the United States that there should be four or five very large banks which would control the entire business of the country and others would not, through various reasons, be able to or find it possible to start up. Would that system be a better one for the country or would it be better to have a large number of banks?—A. Well, of course, you are bringing up the very broad question of branch banking there, as to whether a system of branch banking is preferable to a system of individual banking.

Q. No, 4 or 5 large banks would have the system, too. The number of branches would not be lessened, nor the service to the public?—A. In a country which is operating under a branch banking system, I should say that the possibility is that the strong towering institutions might perhaps be preferable to some of those which were not so strong, but of which there were more. I do not know, that is a matter upon which I cannot express an opinion.

Q. We have in Canada fourteen banks; in fact they are all large, comparatively speaking, to what they have in the United States?—A. Yes.

Q. But four are very much larger than the others. The question is whether in your judgment, in view of your banking operations and serving the public interest, whether in your judgment it would be better for Canada to have four or five of those main banks with all the branches, or whether it would be better to have the fourteen?—A. I would not care to express an opinion on that, Mr. Ladner.

*By Mr. W. F. Maclean:*

Q. With your permission, and the permission of the Committee, I would like to follow up something Mr. Ladner said. I want to ask the witness whether it is a fact that the public of the United States to-day, who want to secure their deposits can go to the United States Government and deposit their money in the Government Savings Bank?—A. Yes, they can.

Q. And it is absolutely secure?—A. As secure as the Government.

Q. And the United States is the greatest financial power in the world to-day. There is also another thing which I would like to have explained in two or three words: we may get more of it to-morrow, and that is that American citizens



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can go into some branch of the National Reserve Bank or into the National Reserve Bank itself and buy a certificate of deposit for a certain amount and get—what per cent on that?—A. Four and a half per cent on that.

Q. He can get a Government certificate of deposit for any amount of money?—A. A Government Treasury certificate up to \$5,000.

Q. On which he draws  $4\frac{1}{2}$  per cent, and he can cash it at any time?—A. He can cash it at any time, but he may lose a little on the interest.

Q. He can re-deposit that money and check against it if he want to?—A. Yes.

Q. Any citizen of the United States can go there and buy a certificate of deposit up to \$5,000, but you have no system of Government deposits like we have, or like what we are supposed to have in this country, a Government Savings Bank independent of the Postal Savings Bank?—A. We have that, the Postal Savings Bank and the Treasury certificates up to \$5,000.

Q. And so far that has been satisfactory? How long has that been in force?—A. The only way in which it has been unsatisfactory, Mr. Maclean, is that it has caused a great many depositors in banks which were struggling along, and in which there was not too much confidence, placed, to withdraw that money and place it with the Government, and get what they thought was good security.

Mr. KELLNER: I would move that the witness be allowed to proceed with his statement.

The CHAIRMAN: I am sure Mr. Ladner will be in favour now.

Mr. KELLNER: Surely the Committee is interested in getting the statement of this witness now.

The CHAIRMAN: Will you carry on, please, with your evidence on the system of inspection, as you started this morning.

The WITNESS: Mr. Chairman, I had about finished with regard to the systems of examination which are in vogue in the United States. I have gone over the report which the examiners make in detail, and I think that we stopped about at the point at which the examination had been completed by the Field Examiner, did I not? Now, after these examinations have been completed, and the matters of criticism, matters of interest I will say, have been taken up with the various Boards of Directors of these banks, that report is forwarded to Washington, and is there analyzed by men who have had field contact; they have had examining experience, and are in a position to visualize the situation, because a report from a particular locality will reach the man who himself has examined banks in that particular locality, so he knows precisely the local condition, he gets the local picture from experience. After that is done he dictates certain letters to the bank calling attention to what is wrong, to the Board of Directors themselves it is addressed, and requires certain corrections to be made. For instance, in the matters of excess loans or large lines of credit or habitual granting of overdrafts, or an over-extended condition, or what-not, that letter will be addressed to the Board of Directors and will be read by them at the next regular meeting, and a reply will be expected addressed to the Comptroller as to what action has been or will be taken in the way of making these corrections. Now, if that is not done, that letter is followed up and if the criticisms are of moment and corrections are not being made, an examiner is returned to the bank; he may be returned to the bank to see what can be done to improve on this condition. That is found very effective. That about covers the scope of the examinations.

*By the Chairman:*

Q. Have you anything else in your statement that you think would be of interest to the Committee?—A. I did think that possibly I should like to file

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with this Committee a copy of the Comptroller's Annual Report with reference of branch banks, which I think will be of interest.

MR. MARLER: Mr. Chairman, I would like to ask the witness some questions when you are quite ready.

MR. HUGHES: There are some questions I would like to ask on some points the newspaper reporters did not get quite clearly.

*By the Chairman:*

Q. What is the date of that report of the Comptroller?—A. This report is of December 3rd, 1923.

Document filed and marked EXHIBIT No. 5 (Not printed).

THE WITNESS: It is of particular interest, because this question of branch banking involves the existence of the Federal Reserve System, and I am quite sure that would be of interest in the report.

*By Mr. Ladner:*

Q. In what way?—A. For the reason that so far as the State Banks are concerned it is a voluntary membership, but in the case of National Banks it is a forced membership, and upon the Federal Reserve System depends the membership of the National Banks, and if the Branch Banking Bill and these other provisions of the McFadden Bill had been passed, the probability is that a great many of the National Banks would go out of the system, and go into the State system, and inasmuch as there are only 1,600 banks out of 20,000 which are voluntary members of the system, it is probable that a great many of those National banks which would go out of the system would probably not become members, and would imperil the system.

*By the Chairman:*

Q. Do I understand you to say that you prefer the Branch Banking System to the Federal Reserve System?—A. It is a question of establishing branches of National Banks, being allowed to establish branches in competition with State banks. At present National Banks are not permitted to establish branches.

Q. How would they be compelled to go out of the Federal Reserve System if they established their branches?—A. Because the Federal Reserve System does not permit branch banks hereafter.

*By Mr. Coote:*

Q. It does not permit branch banks to belong to the Federal Reserve System?—A. Yes, hereafter. Of course, I do not mean branches within the city in which the parent organization is located.

*By Mr. Hughes:*

Q. You stated this afternoon that there were 12 examining districts in the United States?—A. Yes, Mr. Hughes.

Q. And you stated there were a number of examiners and assistant examiners in the United States?—A. Two hundred and fifty examiners and about the same number of assistants. There are about 250 or 260 examiners including the 12 chief examiners.

Q. And 250 assistants?—A. Two hundred and fifty assistants.

*By Mr. W. F. Maclean:*

Q. And a lot of clerks, as well?—A. Yes.

Q. They are the experts of the profession so far as banking is concerned?—A. These examiners are selected from men who have been very successful as bankers, officers, junior officers in banks, and the assistants are from the clerical departments of banks.

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Q. And they are fairly well paid?—A. The Government is not noted for its large salaries; the salaries run in the case of examiners, from about \$3,000 to \$20,000 a year, and in the case of assistants from \$1,500 to \$3,500.

*By Mr. Hughes:*

Q. May I ask one more question? Is it customary in the United States for the banks to allow customers overdrafts to any appreciable extent?—A. It is not anything like so much so as it was; it was quite prevalent before Mr. Williams' administration, but he was very much down on overdrafts, and they are now very much curtailed.

Q. What proportion would they bear?—A. A very small proportion.

Q. To the commercial paper discounted?—A. Oh, nothing. For instance, on this date here, December 31st, 1923, out of 8,184 banks, the loans and discounts amounted to in round numbers eleven billion eight hundred million, whereas the overdrafts amounted to ten million.

Q. What date was that?—A. Last year. Last December.

*By Mr. Marler:*

Q. Mr. Pole, your examination this morning very largely related to the question of inspection of banks or Government authority. The evidence, I think, which the Committee desired to bring out was the possibility of applying a Government inspection to our banking system here in this country. Now, you told us the organization of banking inspectors, and you brought us up to the point as to what happened when these inspectors went into a bank. You told us, I think, that the inspections were at irregular intervals, which meant that these inspectors would go into a bank at any time they wanted to, without previous warning. Now, when these inspectors arrive at a bank, let us take the one you mentioned this morning, the National City Bank in New York, what do they call for first of all or do they simply say, "Hand over your books, we want to examine them"?—A. They do not put it just in that language, but that is what it means. Of course, when you talk about the National City Bank of New York, you are talking about a colossal institution there, which would hardly be a guide; it is almost a law unto itself. Where there are a few immense institutions like that in New York, there are 500 institutions of half a million dollars capital, you know. When an examiner walks into a bank his arrangements are made before going there, to place his assistants in each one of the departments, and he takes absolute charge of each one of these departments as soon as he enters, and he seals the securities and takes charge of the note portfolio, and he seals the cash and takes everything under his charge, and releases it as best he can, having in mind the idea of inconveniencing the bank just as little as possible.

Q. You are aware, of course, as has been pointed out to you, that we have in this country some very large banking institutions with which you are probably familiar. For instance, we have the Bank of Montreal, the Bank of Commerce, the Royal Bank, and the Bank of Nova Scotia; those are four very large banking institutions in this country, all having very numerous branches.—A. Yes.

Q. The point I wanted to try and get at as a starting point is this: these bank examiners in the United States do not call for any particular statement which has been prepared for that bank and examine that statement and check that statement, or do they make up an entirely new statement for themselves?—A. The statement which they would work to would be the statement as of the close of the business of the day in which they entered the bank. That is, they would take that general ledger statement. If they went into a bank on Friday afternoon, for instance, at the close of business that day, after their statement had been made up, that would be the statement to which they would work.

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Q. In other words, they would take a statement prepared by the interior officials of the bank as a basis of accountability?—A. Yes, but checked back by the examiner as to correctness from the general books, of course.

Q. Now, in going from that statement, that statement would have the usual banking items in it; loans, discounts, real estate, and the hundred and one various items you get in any statement of a bank on any day of the year at all.—A. Yes.

Q. They take that statement, the bank examiners, and verify it by the books and first of all find that that statement as a statement of figures is correct. Do they go this far? Do they look further into the various loans in any particular item and verify if those loans are good or bad insofar as the collateral security behind them is bad or good?—A. Yes, that is the principal reason for the examination. The other, one would really regard as in the nature of an audit of the bank, whereas we bank more particularly upon the examination which is the careful examination of each particular loan in that bank, and of each particular asset as to its real value, and when that note portfolio is taken it is probably taken up—to give you a concrete illustration, those notes are sent up to the Directors' room where there is a force of men who go over those notes piece by piece, and they will make up what we call "Line Sheets," which is to say they will go through all these notes, and when they come across "Jones" he will go down, and when they come across "Smith" he will go down, and again when they come across "Jones" he will go down on that sheet again, so by the time the entire portfolio has been exhausted the examiner will have a complete line of all the important loans in that bank, and on top of that these loans will be checked up to the Liability Ledger, so as to be sure the liability will agree with the actual loans which he has received. After these loans have been lined up in that way, the credit statement will be read, and all credit information will be obtained, and that loan will be thereby dubbed as "satisfactory" or it may be "slow" or it may be "doubtful" or it may be regarded as "loss" or "part-loss," and it is there, it is in that very particular phase in which the examination of the Comptroller's Department is of real value.

Q. In other words, if there is a million dollars worth of loans, any particular item composed of one hundred items, each one of these is examined and actually placed in this report at its real value?—A. Oh, yes.

Q. So that million dollars is a real asset?—A. Yes.

Q. There is nothing fictitious about it. Likewise the commercial loans on large assets will each be examined?—A. Yes, that is the intention.

Q. To see if the real value is behind each commercial loan. Likewise, I suppose the loans on securities are examined in precisely the same way?—A. Exactly.

Q. And the same with the assets held by the bank; the whole statement taken together as the real examination of the assets behind that statement?—A. Yes, that is precisely it.

Mr. MARLER: I think that is very valuable information.

WITNESS: We differentiate between what we call the audit and what we call the examination. The audit deals more with the correctness of figures, whereas the examination deals with the value of the bank's assets.

Q. You have a verification of the assets and liabilities of that bank, and when the State bank examiners get through with it, it is absolutely a verification that those securities and liabilities are as shown?—A. As far as the ability goes to make that investigation.

Q. Previous to the revision of the Bank Act in 1913, our banks had what you would call in the United States, and what we call here, the usual interior audit; that is to say, an audit by officials of the bank. Their chief inspectors and



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sub-inspectors go to the various branches, examine them, turn into the head office a return which they have certified as correct.—A. Yes.

Q. In 1913 there was an audit imposed on that. Two auditors were named by the shareholders who went into the affairs of the bank also?—A. This is under your Canadian system?

Q. Yes. I am simply explaining this in order to ask you a question. When the revision of the Bank Act took place in 1923 that outside audit which as I have explained was inaugurated in 1913 was also kept on with some amendments, the principal amendment being that one of the auditors would be more or less permanent, while the other auditor would belong to a different firm and would change as time went on. Therefore, we have an interior audit of our banks, and in addition, this exterior audit of our banks. Now, the suggestion which the Committee is considering—a very wise suggestion too—is that we have a further inspection, or Government inspection of banks. That would mean, so to speak, three various audits. You explained to us this morning the organization which the State bank officials have as regards the inspection which they make, and I think you told us that there was a considerable number of high officials, and a good many other officials necessarily of a lower type—a somewhat expensive matter, I should imagine to carry out, likewise, if applied to this country a more or less expensive matter to carry out. Now, where your State examiners do carry out a system of inspection as you have explained, would a situation like this appeal to you at all—to have a small Board here in Canada of comparatively few bank examiners, and have attached to that Board the auditors as now nominated under the Bank Act, for the purpose of making this exterior audit of the bank affairs. Do I make my question sufficiently clear to you?—A. Yes, I think it would be impracticable for you to maintain a force large enough to make an examination of your banks and all their branches simultaneously; and unless you could do so, a large part of its value would be lost. But it has occurred to me that the system which is in vogue here now is really a splendid system, largely for the reason that I read in your Act that those auditors shall be men of the very highest stamp, so that you can rely on whatever report they make, people like Price-Waterhouse, and Chartered Accountants of high reputations.

Q. Quite so. I might interject Mr. Pole, for your information that instances have occurred where those audits have not proved to be entirely satisfactory?—A. I quite see that that could be in certain cases. Of course, I presume that would not happen very often if the matter were put in the hands of responsible accounting firms.

The CHAIRMAN: That was prior to the change in the Bank Act last year.

WITNESS: Your system of auditing contemplates placing it in the hands of a select list of auditors, does it not?

Mr. MARLER: Yes, it does.

The CHAIRMAN: Since last year.

WITNESS: It does now?

The CHAIRMAN: Yes.

WITNESS: So that would preclude almost the possibility you mentioned, that a report might not be reliable. It strikes me that with the large number of branches that you have, it would be almost impossible for you to maintain a force that could make this simultaneous examination. But if you continued these audits by those responsible accounting firms, and in addition to their regular work of accounting, you outlined to them a report similar perhaps to the one which I presented to you—that is in part—so that it would cover an analysis of the loans, an analysis of the value of securities, and that sort of thing, and

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those reports were sent to this office, and there was in this office a co-ordinating head for the purpose of tabulating those reports, and then perhaps taking those matters which to his experienced eye might appear to require attention—take them up with the bank directly and see that the correction was made, it might be certainly less expensive and perhaps just as satisfactory as having your own force.

Mr. HUGHES: I think Mr. Marler mentioned State banks where I think he meant National banks?

Mr. MARLER: I meant National banks.

WITNESS: The State departments do not maintain the high class of examination that the National banks do; that is generally understood.

*By Mr. Marler:*

Q. The trend of my question is this: Notwithstanding any amount of examination by experienced men like yourself or by others we must get down to some practical viewpoint as to how a matter of this description can be worked out to the advantage of the banks and of the community in general. That is the reason I am asking you these questions in this manner?—A. Yes.

Q. It occurred to me to ask you if you did not think that the continuation of the present audit system that we have under our Bank Act, coupled with a small board of supervisors, very experienced men, exceedingly experienced men who would carry out such directions as the Central Board gave, examined the securities and matters of that description, would not fulfil really the same functions as your board of examiners fulfil.—A. In a very large measure, I think it would. In fact, I think it is really the only practicable way in which this examination of a bank with a large number of branches could be accomplished.

Q. In other words, under our branch system of banking, you think that to immediately set to work to have an entirely new examining board would be hardly practicable, and hardly as advantageous as leaving the present system in vogue and super-imposing another and smaller board?—A. Yes, I think that would be effective. I think further that out of this board, which you speak of, would undoubtedly grow certain schemes which would show the necessity for calling, perhaps upon each individual branch to report direct to this head office in reports from which might be tabulated valuable information—I mean direct to the board, not to the bank itself.

Q. The danger might occur to you to this extent—perhaps it will occur to other members of the Committee though it does not occur to me—that those auditors at present acting under the Bank Act might possibly be influenced by officials of the bank?—A. Under your present system, of course, that is always a possibility.

Q. Would that possibility appear to be of considerable importance to you?—A. Under your system of rotation—I think I might call it rotation—where a bank is only examined under certain restrictions under the law, I should think there would be very little. It strikes me that that has been removed, as far as it is possible to remove it.

Q. And would not such examination, as we have described in the last few minutes, that is to say, the present audit and some others, be far more useful than trying to put an entirely new system into vogue?—A. I should say it would be just as adequate as it could be made, and preferable.

Q. May I repeat my question again; would it compare very favourably, if not be equal to your system of bank examination?—A. So far as the two systems are comparable. Of course, you can hardly compare a system of unit banking with a system of branch banks. We would not take the Chase Bank



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for instance, or the City Bank and examine the parent bank to-day, or this month, and then spring to its other branches as we happen to get to them. We would cover the parent bank and every one of those branches at the same moment, and we would compile our figures so that there would not be any interchange of securities, no possibility of unloading others, or interchanges of any kind. Outside of that, I might say yes.

Mr. MARLER: Mr. Chairman, it was suggested that we might at some time discuss the guarantee of deposits. Is it your wish that that matter be taken up now, or should it be postponed.

The CHAIRMAN: When we stopped putting questions in respect to the safety of depositors it was because we wanted Mr. Pole to complete his statement. I understand that he has completed his statement.

WITNESS: I think so.

The CHAIRMAN: Any other questions?

*By Mr. Shaw:*

Q. Mr. Pole, what is the purpose that the United States Federal Government has in imposing this system of inspection upon the banks?—A. Primarily, that a safe place may be offered to the depositors.

Q. So, I take it then, that the object of inspection is to protect the depositor primarily?—A. To protect the depositor, primarily.

Mr. W. F. MACLEAN: You mean the examination?

Mr. SHAW: I am using the words "examination" and "inspection" as interchangeable or similar terms.

*By Mr. Shaw:*

Q. Now, in the event of a failure of an inspected bank, of a bank subject to Government inspection, is there any financial responsibility on the Government in favour of deposits?—A. None at all.

Q. Does it occur to your mind that if the Government adopts every adequate safeguard, including inspection, there should be any extension of that Government's responsibility in favour of deposits?—A. Absolutely none.

Q. On the other hand would it be fair to say that if the Government does not provide every adequate safeguard, including inspection, then, and then only, will arise the question of Government responsibility for loss in deposits?—A. I think the Government would be subject to some censure if it neglected its duties.

Q. Any responsibility that may be due for payment would devolve only in the event of failure to inspect?—A. Yes.

Q. In the course of your interesting statement this morning, you took us to the point where the Comptroller of Currency, as the result of reports made to him, communicated to the directors, and urged certain action in the interests of the bank. Now I want to ask you, what power has the Comptroller of Currency, if he has any power, to close a bank and stop it taking further deposits?—A. He has absolute power, provided the bank, in his estimation, is not solvent.

Q. That is, I understand— —A. That is indisputable.

Q. Acting on his own discretion, the Comptroller of Currency can step in and close a bank at any time?—A. At any time.

Q. Can you tell me what proportion of the banks to which you referred this morning as having failed were closed in that way by the Comptroller of Currency, approximately.—A. Closed by the Comptroller of Currency?

Q. Yes.—A. I would say a very, very small percentage of them were.

Q. What invited the closing of the bank; was it action by the creditors?—A. The probability is that in the case of a bank being unable to continue, it is usually the directors who close their own banks. We throw that onus on them,

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and make them close their own bank as a general thing. I think, in fact, it is done at the instance of the examiner, but only when in agreement with the directors that it is the best thing to do to close the bank.

Q. So I judge from your remarks, Mr. Pole, that in pursuance of his power, the Comptroller of Currency recommends to the directors the closing of the bank, and they take that action, fearing, of course, that he will follow up his advice?—A. That is correct. Of course, the Comptroller does not want to close a bank so long as it is a safe place at all for the deposit of money. Of course, he tries to avoid closing a bank; indeed, it is a very, very difficult thing to determine as to the solvency of a bank, particularly in those localities where those 57 banks have closed, because they are in agricultural sections, and the lines of credit to those people are just almost guess-work, in a large measure. Of course, you know what those agricultural districts are like. They are exactly like the agricultural districts in Canada where a depression has been felt by the banks, and values have declined, and deposits have declined, and perhaps the bank has got down to where it cannot borrow any money; it has perhaps borrowed already too much, and it has no other place to go, and it is closed.

Q. Suppose that as the result of those reports to the Comptroller of Currency it is found that the capital of the bank is impaired; what would the Comptroller of Currency do under such circumstances?—A. Of course it would depend a good deal upon where the banks are situated and what were the conditions surrounding it, but assuming normal conditions, the Comptroller would then issue an impairment notice against that bank.

Q. What would that mean?—A. He would inform the directors that it was necessary to re-establish the capital of that bank which, according to the report of examination, was impaired, we will say, 50 per cent, and the directors would then serve a notice on the shareholders that in accordance with the by-laws it would be necessary for them to meet within thirty days to arrive at a determination as to whether or not they should pay this assessment or whether they should go into voluntary liquidation, the bank having only an impaired capital, and not being insolvent.

Q. The shareholders then would have that alternative?—A. Yes, the alternative of meeting the assessment or voluntarily liquidating the affairs of the bank.

Q. In other words, I take it, the direction of the Comptroller of the Currency to the shareholders is this, "Either repair the impairment or go into liquidation"?—A. That is correct.

Q. Now, supposing that it should appear from the report of the Comptroller of the Currency that dividends have been declared, which dividends impair the capital of the bank, what would the Comptroller do, with the power vested in him, under such circumstances?—A. Of course, a dividend may not be declared unless first of all ten per cent of the net earnings of the period have been passed to the Surplus Fund, and that the bank has deducted all bad debts and all losses of any kind, and if this has been done and it still cannot declare a lawful dividend, the shareholders may have to reimburse at the instance of the receivership, should the bank go into a receivership.

Q. But I suppose the Comptroller of the Currency would also have the right to direct that the shareholders be called upon to pay back the dividend already paid?—A. Yes, he may do that.

Q. In other words, I take it from your excellent statement of this morning, Mr. Pole, that the Comptroller of the Currency is vested with almost unlimited power?—A. Very wide powers.

*By Mr. McMaster:*

Q. A sort of financial god?—A. He is.

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*By Mr. Shaw:*

Q. In the event of the insolvency of a bank, does the Government, if it has any funds on deposit in the bank, have any priority, or does it share as a common creditor?—A. It shares as a common creditor, but it must be remembered that all deposits of Government funds are secured by satisfactory collateral, which may be passed on by the United States Treasurer.

Q. The Government does not deposit its money— —A. On open account?

Q. On open account?—A. It does not.

Q. And it stands in the same position as the other creditors?—A. The same position.

Q. And has no priority, by law?—A. None at all.

Q. Would you think, as an expert on these matters, that the giving of priority in our country to the Dominion Government, and the provincial governments, as is the fact, would hereby work to the detriment of depositors in the event of insolvency, where our Government deposits are in open accounts?—A. In the event of the open account, I would say it would, but the way it is handled in the United States it would make no difference, because the Government has no preference, and claims none. It does not want preference because it has the security.

Q. Does that same principle apply to the various states?—A. It does not.

Q. The state governments have priority?—A. They have, as a usual thing. There is usually quite a list of grades where they come in as creditors.

Q. I take it that the state governments, in the event they have deposited on open account, have priority to the extent of their account?—A. That is true in some states, if, indeed, it is not in all of them.

Q. That is true by all virtue of the state laws of the various States?—A. Yes, by virtue of the state law. In the State of Georgia, for instance, I happen to recall that the State comes first, and then other governmental funds, I think the county funds and the city funds, and next to that the United States Government funds, and then certain savings deposits, and then open accounts.

*By the Chairman:*

Q. That applies only to State Banks?—A. It applies to this particular state, which I have in mind, which is the State of Georgia.

Q. But it applies to State Banks, not to Federal Banks?—A. Not to the Federal Government.

*By Mr. Shaw:*

Q. But it makes no difference because the Federal Government only deposit on security.—A. Yes.

Q. I want to ask you one or two questions in connection with the application of this matter of inspection in Canada. As has been suggested the banks have an inspection system of their own—A. You mean an internal audit?

Q. Yes?—A. Yes.

Q. Then we have the shareholders' audit—all paid for by the bank?—A. Yes.

Q. The secret of your inspection in the United States, as I take it, is that it is entirely independent of the bank—paid for by the Government?—A. Paid for by the bank.

Q. In what way?—A. Assessment.

Q. You mean by taxation?—A. Assessment.

Q. Based on what?—A. Based on the total resources.

Q. What you do, Mr. Pole, is to find out the total resources of all the banks of the United States, and you pool those resources and assess the banks in proportion to those resources?—A. That is really what it amounts to,

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because the bank, as a matter of fact, is assessed fifty dollars on its first \$25,000 of assets, and three cents per thousand on its total resources thereafter.

Q. So, it is in effect a form of taxation?—A. Yes, a form of taxation.

Q. But the inspecting staff are employed and paid by the United States Government?—A. Yes.

Q. They do not get their pay from any of the banks?—A. No, not now.

*By Mr. McMaster:*

Q. They formerly did?—A. Yes.

*By Mr. Shaw:*

Q. Now, with regard to inspection, it was suggested last year that we should have in the Department of Finance an auditor, or inspector or bank commissioner—call him what you like—who would be in a position to control not only the bank's auditors and bank audits, but could standardize the audits, who could call for other and further returns than those already required under the Bank Act, and would have the right, if he saw fit, to go into any bank in Canada, or any branch of any bank in Canada, and make a thorough inspection?—A. Yes.

Q. Now, do you think that the imposition of such an official as that, a permanent government official charged with this one duty of bank auditing, and this one duty alone, would be a satisfactory and secure addition to make to our present inspection system?—A. I think it would be a very valuable addition.

Q. And would furnish a further safeguard than we have at the present time?—A. Decidedly so. I think, of course, he would not accept these audits necessarily as they are, but would go beyond that and require them to furnish certain other things from which he could compile his reports.

Q. And have the right to go in and make an examination himself?—A. And would have the right to go in and make an examination himself, where he thought it necessary.

Q. And especially along the line suggested by you to make an actual appraisal of the assets, to his own satisfaction?—A. Yes, I had that in mind when I said he should require other schedules than those which are perhaps now in force, and I had particular reference to the valuation of the bank's assets, which I regard as a very, very important thing, if not, indeed, the most important.

Q. There is one further question I want to ask you, Mr. Pole. I want to inquire as to whether or not the Federal Reserve system of the United States has increased the safety of depositors?—A. I do not like to hesitate on that question, but I would say, indirectly, yes by all means. In this way: if I may enlarge on that—

Q. Yes, just explain it?—A. It gives the bank access to funds which it perhaps would not have otherwise from its correspondents to enable it to work its way along pending a better condition of things, and to keep on as a going concern where otherwise, if it might be at the end of its resources, it would have to close.

Q. Is it not true that prior to the application of the Federal Reserve System—

The CHAIRMAN: The witness will be here to-morrow, and this question, Mr. Shaw, is under advisement on a question of order,—

Mr. SHAW: If I may interrupt, Mr. Chairman, the point there, as you will recall is that when the matter was taken under consideration by yourself it was suggested that pending your decision we should have an opportunity to cross-examine any witness.



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The CHAIRMAN: That is quite true, and that is why I did not like to interfere, but I would draw your attention to the fact that Mr. Pole has come to us voluntarily, and has been on the witness stand for almost three and a half hours to-day. We will have the pleasure of listening to him again to-morrow, and as it is 5.35 now, I would suggest, if it is your pleasure, that we adjourn now, and Mr. Shaw will have the first opportunity of continuing his questions in the morning. In the meantime I shall go into this matter of order, and will endeavour to give my decision to-morrow morning in regard to your motion, but even if the other matter be set aside, I think there is no doubt but that questions put to the witness regarding the relation between the establishment of such a system and the safety of depositors, would be entirely relevant.

Witness retired.

The Committee adjourned.

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

Wednesday, May 21, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Vien, presiding.

The CHAIRMAN: Notices of motion.

Mr. Garland moves:

"That schedule G of the Bank Act with the caption 'assets' be amended by adding thereto the following items:—

'Appropriation account, contingent reserves, undistributed profits.' "

This will lie on the table and will be printed in the proceedings to-morrow. I would suggest that other notices of motion be left over until to-morrow morning, because to-morrow we will have more time to consider them. Mr. Williams is to be here to-morrow, but will not reach Ottawa until a quarter past one o'clock. He will not, therefore, be here until 2 o'clock. I would therefore suggest that we meet to-morrow at 11 o'clock a.m. for routine business and notices of motion, and then adjourn until 2 o'clock.

Mr. GARLAND: There is a matter which I desire to bring to the attention of the Committee. Probably as you know, Mr. Chairman, the public are interested as perhaps never before in banking reform, and I have had several requests for copies of the proceedings, and I understand that other members of the Committee have had similar requests. Last year, there was available a large number of copies, and there was no shortage. This year, I find unfortunately, that there is. I give it as my personal opinion that the public are interested in these things and should certainly be satisfied. I would therefore move, that a sufficient number of copies of the proceedings be printed for distribution to enable members of the Committee to supply their correspondents with copies as required.

The CHAIRMAN: Would you tell us the number required?

Mr. GARLAND: So far as I am concerned, I can; but I cannot speak for the other members of the Committee.

The CHAIRMAN: Authority has been given for 600 copies. There are 235 Members of the House of Commons, and 96 Senators, and allowing for some other copies, I understand there is at present available about 100 copies.

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Mr. GARLAND: That is what I understood.

The CHAIRMAN: What the number required would be, I do not know, but I do not believe there would be any objection to having 100 copies additional. We would have to explain the matter to the authorities of the House, however, and I would like to know what the requirements would be, if possible.

Mr. COOTE: Would the Clerk tell us what number was used last year?

The CLERK: The Committee started with 800 copies, which was increased to 1,000.

Mr. COOTE: I suppose they were all used?

The CLERK: They were practically all used?

Mr. SPENCER: I think we should have as many this year. I know I have had calls for a good many copies and have been disappointed in not getting the number I required.

The CHAIRMAN: I will communicate with the Speaker who rules these matters, as head of the Commission of Internal Economy, and endeavour to obtain for the Committee what hon. members are requesting now.

Mr. CHEVRIER: Suppose you place at the disposal of every member of the Committee ten copies. Those who did not want them could leave them for the others.

The CHAIRMAN: That might be a good suggestion, but I suppose some members of the Committee would not require ten copies, while others might require more. If members of the Committee would advise the Clerk as to the number of copies they require we might be able to make a fair distribution. I shall advise the Committee this afternoon or tomorrow what I have been able to obtain after consulting with the Speaker, and I shall endeavor to procure for the Committee what is requested.

Mr. COOTE: There is another matter that I would like to bring to the attention of the Committee. We have had three distinct matters referred to this Committee. There is first the question of the Home Bank and the changes in the Bank Act for the safeguarding of depositors. Next there is the question of rural credits which has been referred to this Committee by the House of Commons. As yet, the Committee have not had time to consider that question and have taken no action in regard to it.

The CHAIRMAN: You mean the Tory report?

Mr. COOTE: Yes, Dr. Tory's report. I may say that I met Dr. Tory yesterday, and I took occasion to ask him when he would be in Ottawa again because I thought the Committee might possibly wish to ask Dr. Tory to come before it and be examined in regard to his report. Dr. Tory told me that he was leaving Ottawa yesterday afternoon and his secretary has sent me the following memo:

"I am directed by Doctor Tory, to inform you that he has left Ottawa this afternoon to be absent until May 27th. He then expects to be here during the rest of next week and probably also on June 2nd, after which he will again be out of the city for several days."

I was going to suggest to the Committee that we call Dr. Tory possibly next Wednesday or Thursday, or possibly Wednesday and Thursday.

The CHAIRMAN: I understand that Thursday is a holiday, but we could probably arrange to have Dr. Tory some time next week.

Mr. COOTE: I would like to know if the Committee would be agreeable to devote two days of next week to this very important matter. So far as Western Canada is concerned, there is no more important question than that of rural credits, and I would not like to see it delayed too long.

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The CHAIRMAN: I grant that there is much in what the hon. gentleman has said, but the first order of business before the Committee is the question of the Home Bank; and if it is agreeable to the Committee, when we are through with Mr. Williams, I would not object at all to hearing Doctor Tory if he is available. I do not think it will disturb very much the deliberations of the Committee if next week we fix a date on which to hear him.

Hon. Mr. STEVENS: He is to be absent until May 27th.

The CHAIRMAN: Next week, I think there will be no difficulty in hearing Dr. Tory. I may say that I tried yesterday to obtain for the members of the Committee printed copies of Dr. Tory's report. Some mistakes have been made in the first printing, and it had to be returned to the printing office. We expect that it will be available for distribution to-day or to-morrow, and copies will be distributed to the Committee, and the Committee will be in a position, after we have heard Mr. Williams, to determine what would be the most suitable day next week to hear Dr. Tory.

Mr. WARD: Will there be any additional copies of Dr. Tory's report available other than what has been ordered? I have had numerous requests for copies.

The CHAIRMAN: Dr. Tory's report is a return of the House, and copies must be asked for at the distribution office. 100 copies have been allotted to the Committee, and I may say that 200 copies will be sent to the Committee for use of the members. If hon. members desire additional copies they should address themselves to the chief of the distribution office.

Mr. WARD: I did so, and was unable to get any more copies.

The CHAIRMAN: Then your only recourse would be to address yourself to the Speaker.

Mr. THURSTON: I may say as a member of the Printing Committee that we ordered this report to be printed.

The CHAIRMAN: The question is mainly as to the number of copies available.

Mr. THURSTON: I think 500 copies are distributed to members of the House.

Mr. COOTE: I would like to know if we can take it for granted that the Committee will arrange to call Dr. Tory next week.

The CHAIRMAN: Will you make a motion to that effect?

Mr. COOTE: I will make a motion to that effect.

Mr. SHAW: I will second it.

The CHAIRMAN: It would be much simpler if you moved that Dr. Tory be requested to appear on a day to be fixed next week.

Mr. COOTE: I will move that.

The CHAIRMAN: Wednesday?

Mr. COOTE: Wednesday, if possible.

Motion agreed to.

Mr. J. W. POLE recalled.

Mr. SHAW: Before proceeding with Mr. Pole's evidence I would like to make a suggestion. Would it be possible for the witness to give us a fifteen-minute or twenty-minute talk on the Federal Reserve System, outlining, perhaps, briefly the defects in the American system of banking prior to that, and then

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the object of the system, and its relationship to the inspection system which he described yesterday.

Mr. W. F. MACLEAN: May I put that in another way. I was going to ask practically the same thing. I would like to ask the witness this:—Is the strength and efficiency of the United States National Banking system bound up with and dependent on (1) National Currency; (2) National Discounting for member banks of the Federal Reserve Bank system; (3) Is it also bound up with the National examination of those banks as carried out by your Department, and (4) the relation of the National Gold Reserve to those things. That is the issue just now, and with your permission, Mr. Shaw, I would like the witness to answer these questions.

The CHAIRMAN: If it were agreed that Mr. Pole would make a statement merely and that the members of the Committee would not go into cross-examination of him on his statement, I would have no objection to it. But if it was to be a full investigation of the question of the establishment in Canada of a Central or Federal Reserve, as is suggested in Mr. Shaw's notice of motion, which appears on the order paper, I would have to delay that until I have given my ruling in respect to the notice of motion.

Mr. W. F. MACLEAN: When do you expect to deliver your ruling?

The CHAIRMAN: I do not want to take up too much time to-day, but I am ready to give my ruling at any time.

Discussion followed.

The CHAIRMAN: In my opinion questions in respect of the effect of such a bank as regards the safety of depositors would be relevant, but questions which are outside of that would be irrelevant. That is my impression now. We will hear Mr. Pole.

WITNESS: I think, gentlemen, if you will pardon me I shall read a little excerpt here from the annual report of the Comptroller of the Currency with reference to a Federal Reserve System, as to whether or not the Federal Reserve System is necessary:

"The necessity for a Federal Reserve System: It seems hardly necessary in view of the record of the existing organization, to enter into any extended arguments, when it would, perhaps, be well to state some of the basic considerations on account of which it was given its present form. The principle of a central bank has been a controversial one for over a century. In deference to the widespread and thoroughly American distrust of the centralization involved in a single Government bank, twelve banks were established in different sections of the country in order to secure the closest possible contact with the local member banks, and a thorough understanding and adaptability to community conditions. Through the operations of the twelve individual units a proper sympathy with and understanding of local conditions and needs is secured, while at the same time through the Federal Reserve Board a liaison between the districts and the detachment necessary for a proper compromise between local interests and national policy is secured. Through the Federal Reserve System the transfer of funds from points of surplus to points of deficit is accomplished with the primary purpose of promoting the best interests of the whole country and not with a view to enabling individuals or sections to reap a financial advantage at the expense of others. If it were assumed that the instrumentality for the transfer of funds could be provided by a private reserve system such as a branch banking institution, it could hardly be fairly contended that the controlling influence would be other than profit.

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Necessarily, in adjustments of this kind the interests of a branch bank or individuals must be private property and not public welfare."

Mr. MACLEAN: That is a good doctrine.

The WITNESS: I will read further:

"The whole Federal Reserve System bears a very striking analogy to the general principles which underlie the American Government, being founded upon a system of cheques and balances calculated to preserve local independence under centralized and co-ordinating control. It would be so distinctly a step backwards and so manifestly a dangerous proceeding to destroy the regulated co-operation of banking facilities that it seems entirely unnecessary to discuss further the necessity for some sort of a reserve system, and the issue is, should it be done by Governmental co-operation or private centralization?"

I should like to read also with regard to a matter I brought out yesterday as to the simultaneous examination of branch banks, as it had an aspect on the question:

"As a practical consideration, aside from the broader aspects of the case, it must be constantly borne in mind that the Federal Reserve System can only be successfully maintained if the administrative authorities have an adequate knowledge of the conditions of the member banks. This necessitates examination, which, in the case of the National Banks is provided by the Comptroller of the Currency, and these National Banks cannot engage in banking beyond the limits of the city in which the institution is located. In the examination of State Banks the Federal Reserve System is compelled to rely on its own examiners and such incidental and voluntary assistance as it can secure from the various state officials."

"The examination of an institution with branches and subsidiaries is a very difficult one. The inter-departmental relationships vastly complicate it. It is more difficult to examine ten institutions of a given size which are associated in a branch banking system than it would be to examine ten independent institutions, as all of the transactions between the different branches have to be investigated and eliminations and adjustments made to produce a composite picture and prevent the improper manipulation or shifting of assets. This cannot be done satisfactorily without a simultaneous examination of the parent bank and all the branches. Bank examination involves very much more than a mere scrutiny of figures. Questions of moral character, of local reputation, of valuation of securities, of conformity to laws and rulings—these and many other elements enter into a proper examination. In the case of the examination of a large bank, with seventy-five to one hundred branches, it would be impossible to mobilize a force of examiners of the ability to make an intelligent analysis of the situation in each individual community, even if it is to be assumed that the character of the banker is not a factor in the condition of the institution."

The National Bank System has been in force since 1865 and the Federal Reserve Act was passed in 1913. The powers of the body are:

1st. To adopt and use a corporate seal.

2nd. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of Congress, or unless its franchise becomes forfeited by some violation of law.

3rd. To make contracts.

[Mr. John W. Pels.]

4th. To sue and be sued, complain and defend, in any court of law or equity.

5th. To appoint by its Board of Directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

6th. To describe by its Board of Directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

7th. To exercise by its Board of Directors or duly authorized officers or agents all powers specifically granted by the provisions of this Act, and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

8th. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to National Banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of National Banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal Reserve Bank. But no Federal Reserve Bank shall transact any business except such as is incidental and necessarily preliminary to this organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal Reserve Bank shall be conducted under the supervision and control of the Board of Directors.

The Board of Directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said Board shall administer the affairs of said bank fairly and impartially and without discrimination in favour of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

The Board of Directors consists of nine members, classes A, B, and C.; Class A members are chosen by the representatives of the stock-holding banks; Class B consisting of three members, are men who shall be actively engaged in commerce or agriculture or some industrial pursuit in the district in which the bank is located; Class C directors are three members who are designated by the Federal Reserve Board.

*By Mr. Ladner:*

Q. They are all appointed by the President?—A. The Class A directors are elected by the stock-holding banks—that is, three directors; the next three are elected from those who are engaged in commercial or industrial pursuits; and the Class C directors are designated by the Board.

[Mr. John W. Pole.]



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*By the Chairman:*

Q. Class B directors are elected, but by whom?—A. By the shareholders, but they shall not be bankers.

*By Mr. Good:*

Q. Mr. Pole, are you speaking now of the directors of the regional banks?—A. Yes, of which there are twelve.

Mr. LADNER: Speaking of the Federal Reserve Bank.

*By Mr. Shaw:*

Q. The Federal Reserve Board is appointed by the President?—A. The members of the Federal Reserve Board are appointed by the President, but I am speaking now of the twelve Federal Reserve Banks.

*By Mr. Hughes:*

Q. Class A and Class B are both appointed by the share-holding banks?—A. Yes.

Mr. Good: Might I make the suggestion that before Mr. Pole ceases to deal with the relationship between the Federal Reserve System as it has worked out in the United States, and the safety of depositors? I think that is one thing we are particularly interested in, an entirely relevant thing. I think Mr. Shaw mentioned something as to the condition in the United States prior to the adopted system, as to the defects which existed then, and the way in which the system met these defects in regard to the safe-guarding of depositors.

The CHAIRMAN: But the Committee must bear in mind that the system which existed then in the United States was quite different; it was a system of individual banks.

The WITNESS: Before the Federal Reserve Act was passed, the system of reserves was entirely different from what it is under the present law. Formerly a bank had to carry its reserve in central reserve cities, and it meant, in fact, there was a pyramiding of reserves, resulting, in the final analysis, that all reserves were carried in New York, Chicago, and St. Louis, these being the three central reserve cities. After the establishment of the Federal Reserve System, the member banks, or the National Banks—

*By Mr. Shaw:*

Q. May I interject a question? Will you explain the weakness of the concentration of the reserve in those centres, and how it affected depositors?—A. The centralized reserve was regarded as working quite well in normal times, but in tight times, where there was no means of obtaining money except through its correspondent banks, where these reserves were deposited, the probability is that those localities themselves were in such shape that they could not advance any money to their correspondents over the country, and that, of course, added to the stringency; while the Federal Reserve Bank is divided up into twelve units and those twelve units are geographically arranged so that the country is well covered and the reserve of each distinct bank—of each member of the Federal Reserve System—is kept in the Federal Reserve Bank of its particular district. Now the particular advantage of the Federal Reserve System is the re-discounting privilege which it offers to its members, and that, to my mind, is an extremely important thing. The National Bank notes are comparatively unimportant as compared with the re-discounting

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privilege, as upon the endorsement of any of its member banks, any Federal Reserve Bank may discount notes, drafts and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange drawn for agricultural industrial, or commercial purposes, and the profits of which have been used or are to be used for such purpose, the Federal Reserve Bank having the right to define or determine the character of the paper.

Mr. LADNER: Mr. Chairman, on this question of re-discounting: I wonder if Mr. Pole would explain the difference of the systems of Great Britain and the United States. I understand the one in the United States tends to inflation, and in Great Britain there is a penalty which deters the borrowers.

Mr. McMASTER: I think it would 'be better to let Mr. Pole complete his bird's-eye view.

The CHAIRMAN: I would suggest Mr. Pole go on with his statement.

The WITNESS: The class of paper which is eligible for re-discounting, then, is agricultural or industrial paper of a current character; that is, as nearly as possible, of a self-liquidating character, and maturities are for ninety days in the case of commercial paper, and nine months in the case of agricultural and live stock paper, and I see it corresponds very much to a class of paper which may be discounted under this Act of your own, which is entitled "The Finance Act." Of course, the advantages are very obvious, as in times of depression with declining deposits, the bank can bring its eligible paper to the Federal Reserve Bank and get that paper put into loanable funds again, and it might be said that it has a tendency toward inflation, but that is pretty much regulated, because the Federal Reserve Banks, as a general thing, adopt what they call a "basic line," and that basic line is determined by the amount of loanable funds divided up proportionately in ratio to the capital and surplus, for instance, as a guide to the bank, even with the authority to make a sliding interest rate so that after a bank has got beyond its basic line, the rate of interest perhaps will rise from  $5\frac{1}{2}$  per cent to 6 per cent, and beyond another point, from 6 per cent to  $6\frac{1}{2}$  per cent, and beyond still another point,  $6\frac{1}{2}$  to 7 per cent, etc. That was in vogue during 1920, but there has been no occasion since that time to carry out that idea.

Mr. Chairman, it would be a good guide to me if any of the members who desire would ask questions on any point of the Federal Reserve Banking System. I think then I would come more nearly giving them what they want.

The CHAIRMAN: Before the members of the Committee are allowed to put questions, I would be obliged to give my ruling, which after all, may clear the atmosphere to this extent, that after that, the Committee may cross-examine the witnesses on points of their statements which may be of interest to them. I thought under the agreement which has been accepted by all the members that we would leave the decision in abeyance until to-morrow.

Mr. LADNER: Cannot the Chairman give his ruling now, because these things are all fresh in our minds, and this is the time to ask questions.

The CHAIRMAN: The ruling is in respect to a motion by Mr. Shaw which appears under a notice of motion on the Order Paper.

1. The Order of Reference from the House to this Committee reads as follows:

"The Select Standing Committee on Banking and Commerce should be instructed to consider the provisions of the Bank Act with a view to recommending such amendments to the Act as will better protect the interests of depositors generally and will prevent similar occurrences in the future."

[Mr. John W. Pole.]



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## 2. Mr. Shaw moves the following:

"That this Committee is of the opinion that the purpose, organization and operation of some type of properly administered Central or Reserve Bank falls within the scope of the Reference, and that the sub-committee be hereby instructed to suggest to this Committee the names of competent witnesses to give evidence on this subject."

3. The creation of a Central or Reserve Bank, however would be a radical departure from our present system of banking.

4. Did the House intend to empower this Committee to recommend amendments which would fundamentally change the Act?

5. The Act is revised every ten years, and it would be detrimental to the stability of our financial institutions if a thorough revision were to take place every year.

6. The Order of Reference limits us to recommending such amendments as would better protect the interests of the depositors.

7. The purpose of the Central or Reserve Bank is not directly better to protect the depositors, but to afford greater rediscounting facilities.

8. The difficulties which confront the depositors of the Home Bank appear to be due, not to the lack of discounting facilities, but on the contrary, to the great facility with which the Bank made advances on doubtful or valueless securities.

9. A Central or Reserve Bank could not have rediscounted these doubtful securities, and therefore would not have offered a greater elasticity, and the depositors would have received no additional security for their deposits.

10. It has not been established to the satisfaction of the Chair that the organization and operation of some type of Central Bank would better protect the interests of depositors generally, and would prevent similar occurrences in the future.

11. The matter of the establishment of a Central or Reserve Bank was fully investigated last year, and a considerable time was spent in collecting valuable information which has been printed and which is now available to Honorable Members.

12. It is possible that any change in the Bank Act more or less remotely affects the interests of the depositors.

13. But should we not endeavour to suggest amendments most likely to receive the approval of Parliament, and primarily some method which would have a more certain, direct and decisive effect to increase the safety of the depositors.

14. In my opinion, such were the instructions of the House.

15. To do otherwise would turn this limited Reference into an unlimited one, involving possibly the revision of the whole Act.

16. In my humble judgment, I am obliged so to decide, and therefore to find that the subject-matter covered by Mr. Shaw's motion, namely the purpose, organization and operation of a Central or Reserve Bank, does not fall within the scope of the Order of Reference.

MR. LADNER: Mr. Chairman, I would move that this decision of the Chair be referred to the House for fuller authority to consider the question of a Central or Federal Reserve Bank. The Chairman, I think, is in error in his findings that last year the matter was fully considered, or that we are prevented from considering it this year. At the close of the sittings of the Committee last year I specifically offered a resolution regarding this question, because my pro-

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posal for a National Federal Reserve Bank was up, asking that the Committee do not make a final decision, and I understand that the Committee reported last year that this matter was left open because of the limitations in our scope last year. I think that with witnesses coming from the United States, and the situation as it is in Canada at the present time, we should not choke off the question of safety to depositors, but rather give it a full investigation.

(Discussion followed).

Mr. SHAW: Without suggesting any disrespect to your ruling, Mr. Chairman, but simply for the purpose of getting the matter before the Committee, I would move an appeal from the ruling of the Chairman on this matter.

The CHAIRMAN: Mr. Shaw moves that the ruling of the Chair be not sustained.

Motion declared lost on division; 12 yeas; 14 nays.

On motion of Mr. Spencer, division recorded.

Mr. LADNER: I move that the decision of the Chairman on this question of taking evidence in connection with a Federal Reserve Bank system be referred to the House, with the request that the Committee be empowered to consider such a question.

Mr. SHAW: That the scope of the Reference be widened.

Mr. LADNER: Yes, that the scope be widened.

The CHAIRMAN: If Mr. Ladner will put his motion in writing, it will remain as a notice of motion for to-morrow.

Mr. GOOD: When may this matter be brought up in the House?

The CHAIRMAN: After our next sitting, or we can immediately take a vote with the unanimous consent of the Committee.

Mr. SHAW: I would suggest that with the unanimous consent of the Committee we take the feeling of the Committee now as to whether the House should be asked to enlarge the scope of its work so as to include this matter, and so it can be brought up this afternoon.

The CHAIRMAN: If it is the unanimous opinion of the Committee, we will take a vote now, but unless it is with the unanimous consent of the Committee we will have to abide by the ruling.

Mr. McMASTER: I would suggest that Mr. Ladner amend his motion to read that the Chairman be instructed to ask from the House such an enlargement of our Reference as will permit us to hear evidence upon the question of the establishment of a Federal Reserve Bank.

Mr. LADNER: The motion should be that the minutes of this meeting be reported to the House, and I will make a motion in that form.

Discussion followed.

The CHAIRMAN: The motion should be that a report of this Committee be presented to the House with the view of obtaining an enlargement of the order-of-Reference so as to embrace the purpose, organization and operation of some type of properly administered Central or Reserve Bank.

Mr. LADNER: I will move that, seconded by Mr. Good.

Discussion followed.

The CHAIRMAN: Mr. Ladner moves, seconded by Mr. Good, that the report of this Committee be presented to the House with the view of obtaining an enlargement of the reference so as to embrace the purpose, organization and operation of some type of properly administered Central or Reserve Bank. Does the Committee wish to have the vote recorded?

[Mr. John W. Pole.]

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Several MEMBERS: Yes.

Mr. GOOD: Before you put the question, Mr. Chairman; there seems to be a little misunderstanding with regard to the motion. Mr. Hughes wants the word "study" put in there.

Mr. HUGHES: Or "consideration."

The CHAIRMAN: So that it will read: "The report of this Committee be presented to the House with the view of obtaining an enlargement of the reference so as to embrace the study—or consideration—"

Mr. McMASTER: Both "study" and "consideration"—

Mr. LADNER: Why not both "consideration" and "study"?

Mr. WARD: Why not both of them?

The CHAIRMAN: Therefore, the motion will read as follows: "so as to embrace the study and consideration of the purpose, organization and operation of some type of properly administered Central or Reserve Bank."

(The Committee divided on the motion (Mr. Ladner) which was affirmed, on division, 22 for and 7 against.)

*By Mr. Shaw:*

Q. In connection with the Federal Reserve System, Mr. Pole, I want to bring out very shortly one point which occurred to me from my study of the American system in force prior to that time. Was it not a fact that the American system prior to the inauguration of the Federal Reserve Act suffered from what I will call "decentralized reserves"?—A. That, together with the inelasticity of the currency.

Q. Now, the object of the Federal Reserve System is to mobilize those reserves in twelve regions, each presided over by a Federal Reserve Bank?—A. That is correct.

Q. And, of course, this system means that in the event that any portion of the country is suffering by reason of lack of reserves at any particular moment, all the reserves can be readily mobilized, or a necessary portion of them, in that direction?—A. That is correct. In that manner a Federal Reserve Bank is required to re-discount for another.

Q. You remember, of course, very well the panic of 1907?—A. Yes.

Q. And the Federal Reserve Act was not then in force?—A. No.

Q. They had at that time the system of Central Reserves, about which you have spoken?—A. Yes.

Q. Is it not a fact that the reserves of the United States were centred largely in those three Central Reserve cities, Chicago, New York and St. Louis, and were not readily available to outside centres? That is a fact?—A. That is correct.

Q. And as a result of the stringency, there were failures of many banks in all parts of the United States?—A. The reserves in 1907 were carried by the country banks in reserve cities, and the reserves of the reserve cities were carried in the Central Reserve cities and the result was that the country banks would carry their reserves with the reserve cities in the shape of uncollected items very frequently, and the same would be true in the case of the Reserve Banks with the Central Reserve Banks, so, as a matter of fact, the reserve of the country banks was not a reserve at all; it was fictitious, and to a large extent that was true in all the large cities—

Q. Yes, but is it not true, Mr. Pole, that even at that time the reserves in the reserve cities were not available and they had to issue clearing house

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certificates which, of course, were of little value so far as the necessities of the case demanded?—A. Yes.

Q. And therefore, a great number of banks were forced to close their doors?—A. Yes.

Q. Causing a tremendous loss to depositors at that time?—A. That is correct.

Q. So, to put it shortly, the Federal Reserve System mobilizes the reserves, making them available to any section of the country?—A. At any time.

Q. In the event of a stringency?—A. That is true.

Mr. McMASTER: What would happen if the stringency occurred all the way around?

*By Mr. Shaw:*

Q. Supposing there was a nation-wide stringency, what would be the fact?—A. Under the Federal Reserve System there could be no such thing as of money panic, with the present-day re-discounting privileges which are afforded by the Federal Reserve System, because there is practically no limit to the extent to which they may issue Federal Reserve notes against commercial paper or agricultural paper, so that funds for immediate needs are available through such issuances by any one of the Federal Reserve Banks.

*By Mr. McMaster:*

Q. Elasticity?—A. Elasticity.

*By Mr. Shaw:*

Q. You spoke about another matter which led me to think, by inference, that the former system was not elastic enough, and the Federal Reserve System now furnishes, to a large degree, the necessary elasticity. As I understood you yesterday, the National Banks were able to secure notes up to the extent of their capital upon depositing security dollar for dollar?—A. That is true.

Q. But they could not in case of a necessary expansion go beyond that limit?—A. No, that was limited to their capital. Of course, beyond that, a bank could borrow money. There was no particular advantage to a bank in issuing its circulation.

Q. Will you explain, Mr. Pole, if you please, in what way elasticity in the note issue has been secured by the Federal Reserve System?—A. In that a bank may take its eligible paper from its portfolio at any time and make its offering to the Federal Reserve Bank, and the Federal Reserve Bank in return will immediately issue its Federal Reserve notes—not bank notes, but Federal Reserve notes.

Q. And the necessary elasticity is secured in that way?—A. Yes. The Federal Reserve notes, if a bank wishes to do it, are shipped to it directly from the Federal Reserve Bank—the actual currency.

Q. These notes are currency?—A. Yes.

*By Mr. Hughes:*

Q. What is the difference between Federal Reserve notes and Federal Reserve bank notes?—A. The difference between Federal Reserve notes and Federal Reserve bank notes is that in the first instance a Federal Reserve note is secured by commercial paper which may be acceptable to a Federal Reserve agent when offered to him by a Federal Reserve bank—the Federal Reserve agent being the Government's representative in that bank—and against that paper the Federal Reserve notes are issued.

Q. Are these circulated from hand to hand?—A. Very readily.

Mr. MACLEAN: And the credit of the United States is behind all these notes?

[Mr. John W. Pole.]



## APPENDIX No. 1

The WITNESS: The Federal Reserve Bank note is a note which is issued against the security of Federal bonds.

*By Hon. Mr. Stevens:*

Q. Is it a better security than the other?—A. It is just as good; no better.

*By Mr. Hughes:*

Q. Of equal value in that respect?—A. Equal value.

*By Mr. Shaw:*

Q. Now, the effect of these two points which you suggest has been, has it not, Mr. Pole, to mobilize the commercial reserves of the United States which prior to the operation of the Federal Reserve Act were immobile?—A. Yes.

Q. Until the time of their maturity?—A. That is true.

Q. Even with respect to short-term commercial paper?—A. That is perfectly true.

Q. Then another point to which I referred, and which I want to ask you about again. Before the inauguration of this system was there not a lack—perhaps a complete lack—of the central control authority so far as mobilization of reserves is concerned?—A. There was a lack of authority in that respect.

Q. Now there is authority which intelligently, presumably at least, guides this whole banking matter in the United States, is that true?—A. That authority being the Federal Reserve Board.

Q. Which, as you have already suggested, is appointed by the President?—A. Yes.

Q. Therefore, these four points, the mobilization of which, you spoke, of reserves, the mobilization of what would otherwise be immobile commercial paper, the creation of elasticity in the note issue, and the central control authority which is now in vogue, each and all make, do they not, directly for the safety of depositors in American banks?—A. Undoubtedly.

*By Mr. Maclean:*

Q. Does the difference between the former and present provisions of the Act in the United States not mean that the credit of the whole United States comes to the relief of a situation in a way which it did not heretofore?—A. That is a point well taken; that is correct.

*By Hon. Mr. Stevens:*

Q. Mr. Shaw has pointed out a thing to which you agreed, that in 1907 there was a great panic, and great suffering,—to use Mr. Shaw's words—and immense losses occurred. That was prior to the establishment of the Reserve Bank?—A. Yes.

Q. And the suggestion is made that the establishment of a Federal Reserve Bank has acted as a remedy, or as a preventative of such large losses as occurred in that year being repeated?—A. That is true.

Q. I have here a copy of Dun's report and I want to base a question upon the very pertinent figures. In 1907 there were twelve National Bank failures, and 120 State Bank failures, with a loss of \$220,000,000 in the latter case, and \$12,000,000 in the former. Now we come to 1914, the first year after the establishment of the Federal Reserve Bank—

MR. SHAW: In connection with those figures, I do not know that it would be fair to take any one year—

HON. MR. STEVENS: I am taking six years. Take 1914: there were 19 National Bank failures and 193 States Bank failures, with a total loss of approximately \$55,000,000 in 1915 there were 18 National Bank failures and 115 State

[Mr. John W. Pole.]

Bank failures with a total loss of about \$37,000,000; then there were a few years with smaller losses, and we come to 1920, which was a very prosperous year. In 1920 there were 10 National Bank failures and 109 State Bank failures, with an estimated liability of about \$50,000,000. These figures are all in round numbers as far as dollars are concerned. In 1921 there were 47 National Bank failures and 357 State Bank failures with a loss of approximately \$170,000,000; then in 1922 there were 35 National Bank failures, and 242 State Bank failures, with a loss of about \$73,000,000, and in 1923 there were 77 National Bank failures and 501 State Bank failures, with a loss of about \$200,000,000. To summarize this, since 1913—that is ten years ago—there have been 222 National Bank failures and 1,664 State Bank failures. I have not had the time to add up the total loss, but it runs up very high. Now my point is this, Mr. Pole, if you will permit me, in view of these increasing failures and the losses in the United States during recent years since the establishment of the Federal Reserve Bank, how can it be argued that the Federal Reserve Bank has in any very material sense contributed to the prevention of failures; I am not saying it is the cause, but how does it contribute materially to the prevention of failures?—A. I do not think it can be said that it is a criterion of the merit of a system when you take that period immediately after the war. Of course, there were tremendous profits built up in 1920, but since that time the deflation has been so tremendous, and the times have been so abnormal, that we are almost tempted to ask the question, "What would have happened if we had not had the Federal Reserve System?" In addition to this, may I add that your figures state there is a very large proportion of these failures attributable to the State Banks. Of the 20,000 State Banks only 1,600 are members of the Federal Reserve System.

Q. However, the facts are correct— —A. I will not dispute the facts.

Q. Really the point I want to make is that there is no system that is infallible and will prevent failures.—A. Absolutely none, as far as I know; it has never been devised.

Q. Let me turn to a comparison of your system and our own. You kindly referred to the Federal Reserve Act and read, I think, Chapter 13?—A. Yes.

Q. I will not read it again but in that Chapter is designated the character of the discounts in what is known as the Finance Act, which I think you have read, and we have the following securities which may be discounted by a Head Office Bank with the Minister, or, as we might say, the Treasury Department, Treasury bills, bonds, debentures or stocks of the Dominion of Canada, the United Kingdom, any province of Canada and of any British possession; public securities of the Government of the United States, Canadian municipal securities, promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity, and promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes and which have been used or are to be used for such purposes. Is that not a wider range of discount, under the Canadian laws, than that which is adopted and accepted by the Federal Reserve Banking System of the United States?—A. I think it is no wider. There is nothing in there that would not be eligible for negotiation—I would not say "re-discounted" because Treasury bills cannot be re-discounted—but as far as the Treasury bills, bonds, debentures or stock of the Dominion of Canada are concerned, any bank in the United States may borrow money on those bills payable from the Federal Reserve Bank—on such security.

Q. You do not include municipal securities in that?—A. No. I see in your Act you have included municipal securities.

Q. Do you accept foreign securities?—A. There is an exception in regard to foreign securities; it is not included; there is not a wide difference.

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Q. Ours, if anything, is slightly wider?—A. Assuming liberality of construction of clauses D and E.

Q. Yes, this naturally would have to be, under the definition of this Act?—A. Yes, I think in that case there is a wide range of bills of exchange and the commodity paper which may be discounted under the Federal Reserve System of the United States.

Q. Having in mind our Branch Bank System, and the National Banks having the privilege of this rediscounting with the Finance Department, can you see any great advantage in the establishment of a second rediscounting system in Canada?—A. Of course the point is that not being very familiar with the details of the system of banking which is in force in Canada, it is a question whether my opinion as to what would be adequate would be of any value. I do not say that this Finance Act certainly would add very greatly to the present system which is in vogue.

Q. That is, providing facilities for rediscount?—A. Yes.

Q. Comparable, not in magnitude, but in accommodation to the American Federal Reserve System?—A. Decidedly so.

Q. Let me put my question in a different manner, and perhaps with less offence. Prior to the inauguration of the Federal Reserve System in the United States, there did not exist a similar accommodation or facilities for rediscount?—A. Except emergency measures.

Q. Which, of course, were in this country as well. We had emergency measures too?—A. Yes.

Q. Then the Federal Reserve System in the United States was to serve an individual bank system which was in vogue in the United States?—A. That is correct.

Q. In so far as the branch bank system in the United States is concerned—I have a few figures here somewhere—they are extending in many States, particularly, for instance, in the State of California. That is true is it not?—A. Yes.

Q. Does the extension of the branch system lend itself in those States to a wider facility in those banking houses to serve the public?—A. I do not think so.

Q. Would it, under the Federal Reserve System?—A. The Federal Reserve System prohibits the affiliation with it of banks which have a large number of branches.

Q. A moment ago, you referred to the small number of State banks. Is it, or is it not true that a number of National Banks have reverted, or limited their operations to State Banks?—A. That is true.

Q. Is it not also true that any State Bank may, if it wishes, by receiving endorsement from a Federal Reserve member bank take advantage of the Federal Reserve system?—A. It does do so.

Q. With eligible paper, of course. Is it not true that any of the 22,000 State Banks can have the facility of rediscounting offered by the Federal Reserve System, providing they have the endorsement of a member bank?—A. Indirectly, from its correspondent bank.

Q. So that while the record shows 1,600 State Banks as members, it is quite possible that a large proportion of the balance use the system of rediscounting through member banks?—A. No doubt, a certain proportion of them would, to the extent to which the correspondent bank would be willing to accommodate them, only.

*By Mr. Hughes:*

Q. The correspondent bank would be a Reserve Bank?—A. The correspondent bank would be its correspondent bank in a larger city.

[Mr. John W. Pole.]



*By Hon. Mr. Stevens:*

Q. Regarding the examination made, you made the statement yesterday, which I think was very pertinent, and I think you repeated it this morning to the effect that it is very difficult to examine a bank with a number of branches, very much more difficult; and if there was a general branch bank system, I think the report of the Comptroller of Currency indicated that it would be impossible to keep an army of officers large enough to accomplish the work?—A. There is no doubt about that.

Q. Therefore, an examination system in Canada, with its branch bank systems and head office system of a type of character similar to the bank examination in the United States, would not be applicable, or would not be feasible?—A. I think not.

Q. In your estimation, would it be so cumbersome as to be unworkable?—A. I should say so; it would be very expensive and impracticable.

Q. You are aware, I think, Mr. Pole, of the system followed in Canada; that is, we have an internal audit of the bank; then we have in our banking system in Canada inspectors, corresponding in power to the bank examiner of the United States; only he is an employee of the head office of the bank in Canada. He steps into the branch office, and takes full charge, just as you have described—takes full charge of that branch, immediately takes possession of the cash and securities, and checks them in practically the same manner as you describe the examiner in the United States banks does?—A. Yes.

Q. In your opinion, is not that internal audit, plus the examination by an inspector, to which I referred, which is irregular in periods; plus the additional audit provided under our Act last year, a fairly correspondingly safe system to that which you practice in the United States, having in mind the difference in these systems of banks.—A. Having in mind the difference of the systems, and eliminating the thought that a simultaneous examination of the parent bank and all its branches is regarded as essential to a proper examination of the bank, I should say that the system as at present in force goes about as far as it could go.

Q. In Canada?—A. In Canada. I mean to say that it is probably as good a system as could be devised except that I think, as I stated yesterday, it might go a little further.

Q. I think we agreed with you in that?—A. Yes.

Q. Having them in mind the Canadian system and the American system, and from your experience as an examiner, would it be advisable or feasible to adapt the American bank examination system to the Canadian banking system without changing the principle of our banking system to correspond with the principle of the banking system of the United States?—A. It could not be done.

Q. It could not be done without that change?—A. It could not be done.

The Committee adjourned until 11 o'clock, Thursday, May 22nd.

HOUSE OF COMMONS,

COMMITTEE ROOM 429,

THURSDAY, May 22, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Vien, presiding.

The CHAIRMAN: It is moved by Mr. Hughes

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"That the Bank Act be amended by adding thereto as subsection three of Section 125, the following:—

"(3) Transfers or sale of shares of the bank by directors or other executive officers of the bank, made within a period of one year prior to any suspension by the bank of payment of any of its liabilities as they accrue in specie or Dominion notes, shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one hereof."

This will remain as a notice of motion for next sitting.

I wish to advise the Committee that I have made enquiries to the number of copies of the report of the proceedings available. If hon. members will send to the Clerk their requirements, we shall endeavour to meet them, provided the requirements are reasonable. I have tried to make arrangements for a list of addresses to which hon. members would like their copies to be sent every day, but I find that it is impossible to do that. It would involve either the Clerk or his assistant addressing 600, 700 or 800 copies every day; but if hon. members will send in the number they require, these copies will be sent to their office every day, and it will be an easy matter for hon. members to arrange with their stenographers to have a list of addresses prepared. That arrangement would be much more simple than that of having an additional staff in connection with the Committee to do the work. Requests for copies should be sent to Mr. Gordon, Room 433, and every morning, the number of copies requested by the members, to a limited extent, will be sent to their rooms.

Mr. McBRIDE: I think the number should be limited. It is putting the House to considerable expense, and I think we should limit the number to that of Hansard.

Mr. McKay moved, seconded by Mr. McBride that the number of copies sent to each member be limited to ten, and only upon request.

Motion agreed to.

Mr. HEALY: Does the Chairman know whether the Minister of Finance will be here.

The CHAIRMAN: He told me he would be.

Mr. HEALY: I see in Hansard that a misunderstanding arose in the House yesterday when the Chairman reported to the House, on account of the absence of the Minister. There was no understanding that the proceedings of this Committee would be limited in the way suggested yesterday, and the House should have corrected that mistake. If the Minister was not present and therefore did not understand what was before the House, I think he should be here so that there may be no misunderstanding.

Mr. GOOD: What is the matter referred to?

Mr. HEALY: We are in the position to-day of not being able to ask witnesses questions about the re-discounting system or things like that, on account of the ruling given yesterday.

The CHAIRMAN: I may advise the hon. member that Mr. Shaw's motion came up yesterday and I gave my ruling that it was out of order. The ruling of the Chair was upheld by the Committee. Then a motion was moved and

[Mr. John W. Pole.]



carried that the Committee report to the House and endeavour to obtain from the House an enlargement of the Reference so as to cover the subject matter of Mr. Shaw's motion.

Mr. HEALY: That is exactly as I understand it.

The CHAIRMAN: That is what has been done. When I reported to the House, I had to move concurrence in the report of the Committee, whereupon the Minister of Finance got up and said that he could not agree to the immediate concurrence, which could be had only with the unanimous consent of the House. The motion for the concurrence of the House in the report of the Committee could not carry except by notice of motion.

Mr. HEALY: That is exactly what I refer to.

The CHAIRMAN: The Minister of Finance said he had not been able to take cognizance of the report of the Committee before the opening of the House, and suggested that the report be left on the table and that the motion stand until he had time to look into it.

Mr. HEALY: What position does that put us in to-day, when Mr. Williams comes here?

Mr. W. F. MACLEAN: He will not be limited.

The CHAIRMAN: You have got to make the best of it, because we have followed the rules.

Mr. HEALY: How can we make the best of it when you have ruled against it?

Mr. EULER: I think it is possible for the Chairman to use considerable discretion in regard to questions to be asked.

The CHAIRMAN: Yes. My ruling is to the effect that the subject matter of Mr. Shaw's motion is not covered by the Order of Reference to this Committee, but that any question bearing on the relation of a Central bank to the safety of depositors would be quite in order. We have now Mr. Pole, who is ready to continue his evidence.

Mr. J. W. POLE recalled.

Mr. HUGHES: When we adjourned yesterday, we were discussing the Reserve Bank system in the United States, and I would like to ask two or three questions.

The CHAIRMAN: When we adjourned, Mr. Stevens was examining the witness.

Hon. Mr. STEVENS: There were just two more questions that I wanted to ask.

*By Hon. Mr. Stevens:*

Q. I had referred Mr. Pole to our Finance Act, and I had read clause 2 indicating the securities which it was possible for the banks of Canada to use in taking advantage of the Finance Act. I just want to refer for a moment to clause 3, bringing out another feature of our system, and one which I think is important. Clause 3 reads "Such securities (that is, as are set forth in Clause 2) shall be deposited with the Minister or with the Assistant Receiver General." Now, in order to make that clear to you, I must add this, that we have an Assistant Receiver General in every province in Canada?—A. Yes.

Q. Situated at the commercial centres of the provinces; so that under the Canadian system, the banks have virtually the privilege of, we will use the term, rediscount, with the Minister under the Finance Act and at the offices of about

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a dozen assistant receivers general. Now then, the question is simply an addition to what I asked you yesterday, having all that in mind, in your opinion would there be any advantage to Canada in the establishment or superimposing upon this system a Federal Reserve bank, or similar institution?—A. The system in vogue would seem to be entirely adequate inasmuch as the Finance Act offers every facility, practically, that the Federal Reserve Bank offers at a much less expense of operation.

Q. Now, one other question, which is not on that immediate subject, but which I think is important. Having in mind the application of the Federal Reserve system as supplementary to the security of the public and to the general banking system of the United States, there was a law passed this year in the United States—I do not know what they call it—I think it was suggested by the President, Mr. Coolidge, allocating \$10,000,000 for the purpose of assisting banks in the middle-Western agricultural area, which, on the report of the examiners, State and National, I presume, indicated a tendency towards insolvency, because of the shrinkage in securities, numbering about 170, I understand?—A. Numbering about 170 banks?

Q. Yes, that may be approximately. Now, the question I want to base on that is, does not this indicate that no matter how perfect one may suppose the system to be—and at the same time granting that the Federal Reserve system of the United States has been a wonderful boom to the banking system generally, does it not indicate that conditions do arise and will arise in the future, that no system will adequately meet, and that just such emergency legislation as this will be necessary?—A. That is undoubtedly true. This, however, was not legislation; this corporation, which you speak of was a privately formed corporation.

Q. At the instance of the President?—A. At the suggestion of the President.

Q. Would you mind elaborating just a little on that?—A. I shall be glad to do so. It was a private corporation formed in Minneapolis, and the capital is voluntarily subscribed by banks in Chicago, New York and elsewhere, and is a corporation organized for the purpose of rediscounting and dealing in stocks and securities. But it is not intended that the corporation should make any voluntary contribution to the banks which are in difficulties. I may say that the National Bank examiners' reports are accepted by this corporation as a basis for their transactions, and if it is found that a bank in that unfortunate district is in such circumstances that it may be solvent, but that it has very seriously impaired capital, the corporation, after analysing the assets and the liabilities of the bank very carefully will determine that it is necessary, for instance, to make a 75 per cent assessment on the stock. But if it is found that the shareholders of the institution are unable to meet any 75 per cent assessment—the probability is, that like a great many banks in that part of the country, the shareholders have already contributed large amounts of money to keep the bank going, and a further burden is possibly not to be thought of; so that the corporation which is known as the Agricultural Credit Corporation comes to the relief of the shareholders for the purpose of re-establishing the capital of that bank, thereby enabling it to carry on with a fully re-established capital.

Q. In connection with the condition of those banks, would I be correct in assuming that much of the paper that the banks had in their possession, probably some that had been rediscounted and not met at maturity, had been classified by the examiner of the State or National Banks, as the case may be—that it had been classified under the examiners' investigation as "bad" or "slow", and so forth; would that be a contributing cause to their tendency towards insolvency or the impairment of their capital?—A. The paper in those districts might fairly

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be classified as pretty nearly all "slow" at least; quite a portion of it is doubtful, but in the summing up of the situation, while cognizance is taken of the doubtful paper, that paper which is estimated as a loss is that which is taken into consideration in cases of impairment of capital.

Q. For instance, under your Federal Reserve System, you limit the payment of agricultural paper to 9 months, if I recall?—A. That is for rediscount purposes.

Q. A great deal of the agricultural paper of that district being "slow" would not be of use to any bank for rediscount purposes if not met at the end of the maturity period, say it is 9 months?—A. It is in the discretion of the Federal Reserve Bank in that district. It may accept "slow" paper if it feels disposed to do so. The fact that a piece of paper has been renewed does not make it necessarily ineligible for rediscount.

Q. Then at the end of 9 months that paper will be renewed in full, and will be accepted?—A. That is within the determination of the Federal Reserve Bank.

Q. But this \$10,000,000 corporation is really implementing the functions performed by the Federal Reserve Bank and the rediscount system connected with the Federal Reserve Bank System?—A. It is performing a function which is entirely different from that of the Federal Reserve Banks. It is lending money to individuals to meet their assessments in cases where it is necessary to enable the bank to remain open.

*By Mr. Maclean:*

Q. Is it not the case that President Wilson, when he was in office practically devised this Federal Reserve Bank System and expanded it?—A. Quite a number of men claim the authorship of the Federal Reserve System.

Q. Since I have seen the statement that there is a great difference in the provision of the Federal Reserve Banking System—a great difference between the apportionment of money to agricultural businesses, and to general commerce, and that it is not quite so, as Mr. Stevens tried to make out, that there is ample money in the States for the relief of agricultural needs, and that the Federal Reserve banking law has been expanded so as to apply to the agricultural interests—is that so?—A. I think that is not correct, Mr. Maclean.

Q. Well then, do you think there is the same opportunity for agricultural credit—through the Federal Reserve as there is for general business?—A. I should say there is equal opportunity.

Q. Well, why has the measure recently come up?—A. The recent measure came into effect because the Federal Reserve Banks are limited under the law to rediscounting certain classes of paper. Now, investments in stock for instance, would not be regarded as obligations which would be eligible for rediscounting, but the corporation which you refer, has been organized, among other purposes, for that of investing in the stock of National or State banks, and while the Federal Reserve Bank might have ample funds to meet such an emergency, the class of obligations would be ineligible. There are, however, for agricultural purposes a number of agencies in addition to the Federal Bank, which are governmental agencies, such as "Federal Farm Loan Board," "The War Finance Corporation," and the "Intermediate Credit Bank." Those are three important ones.

Q. And yet the agricultural depression, in spite of that assistance, is discouraging?—A. There has been no lack of credit facilities for the agriculturist, Mr. Maclean. There may have been a too liberal extension to the farmers.

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*By Hon. Mr. Stevens:*

Q. There is one question I asked you yesterday, and we adjourned just at the moment, and you made no comment on it other than a direct answer to my question. I will read it and ask you if you will be good enough to enlarge a little on your answer. I will read the question I asked yesterday, because it is the one in my mind:

“Q. Having then in mind the Canadian system and the American system, and from your experience as an examiner, would it be advisable or feasible to adapt the American bank examination system to the Canadian banking system without changing the principle of our banking system to correspond with the principle of the banking system of the United States?”

and your answer was, “It could not be done,” and then we adjourned. It probably would be a little unfair to place you in the position of allowing that answer to stand without comment, and it did not quite complete what I would like to have as your opinion on the subject.—A. I have prepared a little memorandum touching on that subject, if I may read it to the Committee, and you will pardon me if it appears that I am a little presumptuous in expressing an opinion, although you have asked me for an opinion.

After giving thought to the banking systems which are in vogue in the United States and Canada, it becomes very obvious that the methods of supervision must differ although perhaps not in their essential elements.

The examinations of the Unit Banks in the United States may be so arranged that a large force of examiners and assistants can be kept constantly employed, and the banks having branches being comparatively speaking few it is entirely possible to make simultaneous examination of the parent bank together with the branches.

In Canada, to make simultaneous examination of the parent banks and their branches would require an unwieldy force and involve an expense which would seem to make it prohibitive. The system in vogue has every appearance of most nearly meeting the requirements of the situation.

The employment of selected firms of chartered accountants to inquire into the affairs of the banks, while perhaps not quite as satisfactory as though they were examined by men employed directly by the Government whose sole duties were to keep in close touch with the banks under their immediate jurisdiction and which would be impracticable under the existing circumstances; it is unquestionably sufficient to meet all the requirements, except that, as far as it has come under my observation, there seems to be the necessity for extending the scope of the audits as now made to embrace an exhaustive analysis of the bank's assets including added schedules such as “large extensions of credit to individuals, firms and corporations together with their affiliations, unwarranted investments in any particular class of securities” as well as information in connection with the management.

It suggests itself to me there should be a co-ordinating officer of wide experience in banking affairs with a sufficient force of assistants, whose activities should consist entirely in compiling statistics and interpreting the information gathered; that he should have full powers to treat with Boards of Directors for the purpose of making adjustments and correcting criticisms which an analysis of the report of examination

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might disclose. With such an executive in charge of the examinations so conducted, there would without doubt develop opportunities in numerous ways whereby his services would be of inestimable value to the banks themselves in adjusting differences and co-ordinating the banking business of Canada in addition to fully protecting the public interest.

The Federal Reserve System has been of inestimable value to the banks of the United States in ways too numerous to mention. Primarily, with the discounting privileges which it offers to its members, it has enabled a large number of banks to carry on through periods of depression when it would have been impossible to obtain funds elsewhere, and which must have closed their doors with reluctant heavy loss to depositors; and while some members of the system have fallen by the wayside in spite of the facilities which the F.R. banks offered, the question naturally arises as to how calamitous might have been the situation had there been no such agency in existence—and to the world this will never be known, but to those who have been in close touch with conditions since its establishment, the facts are undisputed.

The Federal Reserve system is admirably adapted to the *Unit* system of banking, but for a very small number of banks with a large number of branches to attempt to adjust themselves so as to fit into such a scheme would appear to be highly impracticable.

Under the provisions of the Finance Act it seems to be quite possible for any bank in Canada whose assets would be of such liquid character as to enable it to take advantage of any facilities offered by the Reserve system, to avail itself of equal opportunity offered by the Finance Act, the operation of which is easy and inexpensive, and, judging from the manner in which it has been functioning, quite effective.

The choice in Canada then would almost appear to be between a Federal Reserve System coupled with a Unit system of banks which change would involve untold difficulties, and a combination of the Branch Banking System coupled with the Finance Act, which seemingly is meeting every banking requirement.

*By Mr. Maclean:*

Q. Would you change the American system for our system, if you had an opportunity?

*By Mr. Hughes:*

Q. Some of the questions I intended asking were covered by questions asked by the other members. However, there are one or two I am going to ask. Was the inelasticity of the American currency one of the disadvantages cured by the establishment of the Reserve System?—A. That was one of the very greatest.

Q. Was it the greatest?—A. I should say that it was.

Q. Then, I think further, that the National Banks have the privilege or the right to lend on real estate up to 50 per cent of their capital?—A. And surplus, or one-third of their time deposits. Up to 50 per cent did you say?

Q. Up to 50 per cent of their capital and surplus.—A. 25 per cent of their capital and surplus, or one-third of their time deposits.

*By Mr. McMaster:*

Q. Whichever is the larger?—A. Whichever is the larger.

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*By Mr. Hughes:*

Q. Or one-third of their time deposits?—A. Yes.

Q. Then, would you call loans of tht nature non-liquid, or frozen—perhaps non-liquid would be better, or non-active?—A. There is in the country a well-established market for high-class real estate loans.

*By Mr. McKay:*

Q. There is a limit of time to five years, is there not?—A. There is a limit on improved farm property of five years.

Q. And on town property to one year?—A. Yes, on town property to one year.

*By Mr. Hughes:*

Q. The Federal Reserve Banks issue their own notes—re-discount the paper brought to them by member banks? These notes, in the main, I suppose, represent loans made against liquid or quick assets?—A. That is a requirement.

Q. If they should re-discount loans that have a long period of time to run that will represent assets that will not pay for themselves, would there be danger of an inflation of currency under such a system?—A. There would not be, for the reason that such paper as you speak of is not eligible for re-discount.

Q. But I thought loans on agricultural paper— —A. A National Bank may make such loans, but a Federal Reserve Bank may not discount such loans.

Q. They may?—A. They may not.

Q. But they also may?—A. They also may not.

*By Mr. McMaster:*

Q. They must not?—A. Yes, they must not.

*By Mr. Hughes:*

Q. Therefore, in your opinion, there is no danger of an inflation of the currency under the Federal Reserve System?—A. Under the discreet management in which the Federal Reserve Banks are operated, I should say that phase would be fully protected.

*By Mr. McMaster:*

Q. Coupled with an adequate examination of banks?—A. The examination of the Federal Reserve Banks as made by the Federal Reserve Board, or by the Comptroller of the Currency, so I cannot brag of the examination.

*By Mr. Hughes:*

Q. Under the Federal Reserve System of the United States, and under the system which we have in Canada under the Finance Act, do you see any essential difference between the two systems?—A. There is a great similarity.

Q. Mr. Stevens in one of his questions to-day asked you whether you considered it advisable or necessary to superimpose a system similar to the Federal Reserve System in the United States upon the system which we have here now, and I think your answer was that you did not see any necessity for that, or did not think it advisable, or something of that kind; but, inasmuch as the two systems are largely identical, would you see any objection to substituting the one for the other?—A. I hardly think that the Federal Reserve System could be substituted for the Finance Act.

Q. Why?—A. For the reason outlined in my remark that it is entirely adequate for a unit system of banking, but it is not adapted to the—

Q. Branch system?—A. Branch system.

Q. Why?—A. Because it would be too expensive and too cumbersome for the number of units which it would have to take care of. There being only

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fourteen banks, if the fourteen banks should undertake to support the Federal Reserve System it would be rather an expensive operation.

Q. Because of the expense? That would be largely your objection?—A. That would be one of the objections, when perhaps the same purpose could be achieved under the provisions of the Finance Act.

*By Mr. Maclean:*

Q. You say the two systems are very much alike. Is there not a great difference in the fact that in the banking system of the United States they use National notes instead of bank notes, and bank notes have been the great trouble in this country?

*By Mr. Hughes:*

Q. Just one question to complete this. The Federal Reserve Banks issue notes of all denominations, I presume, for circulation in the country?—A. They do.

Q. For the National currency of the country?—A. Yes.

*By Mr. Shaw:*

Q. Now, Mr. Pole, you have had some opportunity to study the Canadian Banking System, at least during your visit here?—A. A very good opportunity.

Q. And I suppose you have studied not only the Finance Act, but the provisions of the War Finance Act, and you know that as a matter of practice the interest rate is, in practice, a fixed rate—5 per cent? You are aware of that?—A. I am aware of that.

Mr. McMASTER: In connection with what?

Mr. SHAW: The discounting of securities.

The WITNESS: The borrowing of money.

*By Mr. Shaw:*

Q. You know, of course, that is under the charge of what is known as the Treasury Board, composed of the Minister of Finance and, I think, two other Ministers of the Crown—you are aware of that?—A. I am, Mr. Shaw.

Q. And you know that these Ministers of the Crown change pretty frequently in this country? It is not a constant body?—A. I understand that.

Q. The gentlemen who compose the Treasury Board are not necessarily financial men, or men who have a thorough knowledge of financial affairs. You are aware of that fact? Our political system is such that that must be so?—A. Yes.

Q. Then you have discovered, I have no doubt, in your researches, an organization called the Canadian Bankers' Association, which has certain disciplinary powers in connection with the members of the organization?—A. In a manner, yes.

Q. And I suppose you have investigated also what we call the Central Gold Reserve, which, as you are aware, is under the custody of a trustee for the Government, and two trustees named by the bank. That is, three trustees altogether?—A. Yes.

Q. And we are now trying to develop here some sort of an audit or inspection system in the Finance Department. Heretofore we have had the Finance Department which received returns from banks and compiled them, and gave them to the public?—A. Yes.

Q. I do not want you to get the idea that we are trying to impose the Federal Reserve System in this country, Mr. Pole, because that seems to be in your mind, but what I want to ask you is this; supposing we had what we might call a central bank, or—I am not particular about the name—call it a banking commission if

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you like, which was charged not only with the duty of inspection or audit or investigation or examination, or whatever you want to call it, independently of the bank, but also had charge of the Central Gold Reserve, or the disciplinary powers which are now given to the Bankers' Association under the Bankers' Association Act, and then were charged with the duty which now vests in the Treasury Board, under the War Finance Act, would you think it would be desirable to have some central co-ordinated authority which would co-ordinate all these different banking functions under the charge of a responsible commission, banking commission or whatever authority you want to call it?—A. I was labouring under the idea that the Minister of Finance was such an officer.

Q. You think he co-ordinates all these various activities?—A. I presumed they were under his Department.

Q. Are you aware that in the case of a bank in difficulties, he has not any more power in the matter than you have, so far as legislation is concerned?—A. I did not know that.

Q. He has no power to close a bank. Then only closing of a bank which comes by law would be like any other insolvent corporation?—A. Yes.

Q. And any power which he uses must be the power of persuasion?—A. Yes.

Q. I ask you, Mr. Pole, in view of the circumstances I have outlined to-day, would it not be desirable to put in the hands of some central body, bank or organization—I care not what you call it—a trained body of competent men, experienced in all these banking functions, and in addition to that, perhaps in time they would be the body which would issue notes for this country instead of them being issued as they now are by the banks—not immediately, but perhaps in the future?—A. I think it would be extremely desirable that a banking board or bureau should be established, if it has not already been done.

Q. Charged with those various functions?—A. Charged with those various functions. It would be highly desirable.

Q. I want to mention that to you because I think the impression has gone abroad in the Committee's minds that there are some here who want to establish Federal Reserve Banks. I am sure that is not possible, but I am interested in trying to get some central place where we can fasten responsibility for all these activities.—A. I was under the impression that that would come under the duties of the Minister of Finance to take care of all these situations.

Q. He is charged with matters of policy?—A. I presume, as far as his time is concerned, that is so. I know that the Comptroller of Currency in the United States has not the time to attend to all the banks, but he has assistants to whom he delegates certain authorities with respect to that.

Q. The point is this, that the Minister of Finance in this country is a member of the Cabinet, and he must be in Parliament four or five months out of the year. He is charged with matters of policy, but it cannot reasonably be expected, in view of our political system, that he will be a financial expert, and it is impossible for him to do all of this work?—A. I understand that.

Hon. Mr. STEVENS: That applies to every Minister of the Crown in every activity of any kind. He is the nominal head and has responsible officials under him to do the different kinds of work.—A. The Secretary of the Treasury in the United States is responsible for all the operations of the Treasury Department, but he has no time to attend to all the details personally.

*By Mr. Shaw:*

Q. He is not responsible to Congress.—A. I should say he is responsible to Congress for the operations of his Department.

Q. I ask you for your criticism of the suggestion which I have just made.—A. I should say that it is a very valuable suggestion. As a matter of fact,

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to repeat what I said before, I was under the impression that the Minister of Finance was in charge of just such duties as you outline, and that the Banking Bureau was already established, and was operating under his jurisdiction.

Q. Take for instance, the advances under the War Finance Act. Do you think it is desirable that this should be under a body of trained men, where there is the right and the power to slide the interest rate as you mentioned yesterday?—A. Yes.

Q. That is desirable, because it will either prevent inflation or deflation. —A. I am assuming a proper and careful administration of the Finance Act.

Q. But as you know, the interest rate has been stationary, as you have already suggested, in practice?—A. Yes.

Q. Do you think that advances under the Finance Act should be made in the light of the inspection reports available to the Finance Department, or to a department of any kind?—A. The Federal Reserve System is basing its operation upon the reports of the bank, which are made by the Comptroller of the Currency.

Q. You have already mentioned that the inspection co-ordinated with the Federal Reserve System?—A. Yes, the Federal Reserve Banks base their advances upon the information which may be found in the report, in addition to the analysis of the paper itself when offered for discount.

Q. In the suggestion which I offered you, I suggested that the Inspection Department, or Examination Department, or whatever you care to call it, would also be under the control of this central body, so that the financing under the Finance Act would be met in the light of the inspection reports?—A. I would say that that would be one of the functions of the Bureau, by all means.

*By Mr. Ladner:*

Q. Mr. Pole, last year the Committee on Banking and Commerce considered in their limited way the question of a Central Reserve Bank, and at that time I submitted a proposal which was filed as Exhibit 8 and which may be found on page 254 of the report of last year's Banking Committee. This proposal was submitted in connection with the establishment of a Federal Reserve in Canada. Have you read that proposal by chance?—A. I have not.

Q. Then I want to go over some of the principles which I considered at that time applicable to Canada, principles taken from the United States system, but not all of the principles of the United States system, because all of them are not applicable to Canada. Mr. Shaw has covered a number of these in his questions, so I will skip those he has covered. The proposal which I filed last year under the heading of "Proposal for a Reserve Bank of Canada" has a subheading—"Operation."

"The Federal Reserve Bank should exercise the following functions:—

"(a) To act as a bank of rediscount dealing only with banks."

That is the one of the essentials of the Federal Reserve Bank?—A. Correct.

Q. Then

"(b) To have the right of open market operations in much the same way as it is now done by the Federal Reserve Banks of the United States and for the same purposes."

I do not know whether open market operations have been explained to the Committee. Would you mind explaining what they are?—A. The open market operations are operations whereby the Federal Reserve Bank may go into the open market in New York or the large money centres and purchase bills and acceptances for profit in order to employ its surplus funds.

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Q. Then in the event of a member bank, or some other bank, charging too high a rate of interest, has the Federal Reserve Bank not the authority, after notifying them, to go into that market and lower the rate so as to force the banks to give a reasonable rate of interest?—A. That might be done, it is done.

Q. In fact, the United States Federal Reserve Bank has that authority?—A. Yes.

Q. Then

“(c) To act as a credit agent for banks in international banking in order to facilitate trade and commerce between Canada and other parts of the world, on much the same principle as the Bank of England.”

Would you mind explaining to the Committee how this is done in the United States and Great Britain?—A. I am not familiar with the operations in Great Britain, but in America the banks do a wide foreign business of course; that is the banks in New York—

Q. The Federal Reserve Bank?

The CHAIRMAN: Let him finish his answer.

*By Mr. Ladner:*

Q. The Federal Reserve Bank—A. Does not enter into any foreign operations directly, except for the discounting of bills through its member banks.

Q. In international trade it is highly advantageous that function of the Federal Reserve?—A. It is highly advantageous. It makes no distinction between a foreign bill which is eligible and endorsed by a member bank, and a domestic bill which is equally eligible.

Q. In that way, in foreign trading, it has an advantage over the system of private banking?—A. The probability is that those banks which would discount foreign paper of that class would have in its portfolio ample paper which it might discount if it chose to do so, because these operations are conducted by the very large banks, whose assets, generally speaking, are of a strictly commercial character.

Q. Then (d) is with respect to Note Issues and the operation of the Finance Act, the Gold Security and Dominion notes. I think Mr. Shaw covered that. We have had your opinion on that. Then

“(e) To act as bankers or fiscal agents of the Government.”

That is a function of the United States Federal Reserve Bank?—A. Yes, that is.

Q. How does that work out as regards Government financing, compared with the old system?—A. I am advised that it is entirely satisfactory, and operates at a great saving to the Government.

Q. Would you mind, in a few words, comparing the two systems?—A. The old system of sub-treasuries—the notes which were issued to various sections of the country, have all been taken over by the Federal Reserve Banks, and the sub-treasuries, which operated at considerable cost have been discontinued. The large volume of business which has been transacted by the Federal Reserve Banks as fiscal agents, is due to the large issue of Government securities in the shape of Liberty bonds, and that sort of thing, which, of course, was subsequent to the establishment of that issue; so that the fiduciary activities of the Government have been tremendously extended since the establishment of the Federal Reserve System.

Q. I have heard it said, and I would like to have your opinion on this, that the appointment of a Board of Federal Reserve caused a sort of political relationship to exist during the war by which the rate of interest was kept up artificially during the sale of Liberty bonds, in order that the Liberty bonds

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would be sold to a bank, and that when the war was over, deflation commenced to take place and the Federal Reserve tried to lower the rate of interest and the Liberty bonds sold at much less, so far as par value is concerned. That is the story we heard?—A. I would not be prepared to express an opinion as to the activities of the Federal Reserve Board in that connection. I know nothing beyond newspaper reports on such subjects.

Q. Then (f) of my proposal deals with the question of profits. I believe that under the Federal Reserve System the profits are limited to 6 per cent?—A. The amount of profit which a Federal Reserve Bank may make? There is no limit to the amount of profit which a Federal Reserve Bank may make.

Q. But if it is over six it goes to the Government?—A. There is a limit that they do make. The shareholders of the Federal Reserve Banks cannot receive more than 6 per cent dividend annually, after which certain amounts go to the surplus, and then the remainder goes to the Government, as a franchise tax.

Q. Next (g) "To act as a disciplinary body for banks which might be disposed to engage in questionable undertakings"?—A. The Federal Reserve Banks through their offices act in an advisory capacity to the banks.

Q. If they find a number of banks engaged in expensive and perhaps questionable financial undertakings, would they not have the authority to stop them, to hold them back, or to correct them?—A. It would have none except as that bank might be discounting with the Federal Reserve and it would affect the value of the operation. That would be the function of the Comptroller of Currency, to discipline the banks. It is not the function of the Reserve Bank, except to lend money on safe securities.

Q. Clause (h) deals with the question of inspection, and we have had that.—A. Yes.

Q. The last clause (i) was covered by Mr. Shaw. It deals with the question of a central bank taking over the duties of the Treasury Board and the trustees of the Gold Reserve and the operations under the Finance Act of 1914. Now, I understand that you are of the opinion that you could not put a Federal or Central Reserve System in Canada? Do I understand that correctly?—A. That a Federal Reserve System, as operated in the United States, would not be well adapted to the banking system which prevails in Canada.

Q. Because the two systems are fundamentally different; the one is a branch system and the other an individual bank system?—A. Precisely.

Q. Could not this be worked out to the advantage of Canada. Could we not take those principles from the Federal Reserve System which are applicable to Canada, and which have been enumerated?—A. I would think that that would be entirely feasible under the control of this Board which you referred to, and under proper administration.

Q. You told us yesterday that unless the National Banks were able to engage in the branch business, the Federal Reserve Board could not continue?—A. I think you did not exactly get me on that.

Q. I made a note of it, and the note I have is to the effect that the branch bank business was subject to the continuance of the Federal Reserve Board because the National Banks changed to the State Banks in order to get the rates in that way?—A. I say that the National Banks' membership in the Federal Reserve System is necessary to its existence.

Q. Did you not also tell us that it was essential if the National Banks engaged in branch business, for the Federal Reserve System to continue?—A. No, I said that they have equal opportunities of competition with the State Banks and that they should have branch banking privileges within the city in which they were located, but not outside.

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Q. Why not outside?—A. Because it is a Unit System of banking. You are getting into the question of branch banks now. It is entirely regarded as a monopolistic system, and not adapted to the United States. The Unit system of banking is in vogue, and it suits the American ideas of local self-government far better than the branch banking system, although there are advocates of the branch bank system in America, plenty of them.

Mr. McMASTER: You mean that part of America known as the United States?

WITNESS: I beg pardon, yes.

*By Mr. Ladner:*

Q. Do you not think that taking the Canadian banks with their branches, and taking the banks under the Federal Reserve System in the United States, we could work out a system of a central or federal reserve board, to perform those functions, and do you not think it would be an advantage to Canada, and would not be too expensive?—A. I do not think there can be any question but that this board of control under some officer—I thought it was the Minister of Finance—might undoubtedly select very many clauses of the Federal Reserve System in a general way which could be made applicable to your system of banking in Canada.

Q. And not superimposing upon the Finance Act and the Treasury Board, and these things, but co-ordinating with these things?—A. Yes, although I would say that the probability is that under such a system that system which you are suggesting would absorb all these functions under which the Finance Act was operating.

Q. Now then, do you understand the situation of the Receiver General's office?—A. I do in a general way, yes.

Q. Could we not take almost the entire machinery which we have now operating through the Receiver General's office, and co-ordinate that into a system of a Central or Federal Reserve Board with very little additional expense?—A. Are you not coming back to precisely the operation of the Finance Act?

Q. No, I am coming to a question of expense. Can you see, at the moment, any great additional expense to the banks or the country?—A. Well, I visualize the operation of the Finance Act, in your suggestion there.

Q. With further powers?—A. With further powers.

Q. Can you see any great expense that would be involved in such a procedure?—A. I can see that the expense might be very great, or it might be limited to the necessities of the case.

Q. It could be limited to the necessities?—A. I should say that it could be limited under such a plan.

*By Mr. Marler:*

Q. Mr. Pole, there are a couple of questions I would like to ask you. You spoke about the American units banks being allowed to make loans on real estate, and you stated that in the United States there was always a market for loans on real estate. What did you mean by that? That these loans could be readily sold once they were negotiated by the banks to others?—A. Yes, there are mortgage companies, and insurance companies, as a general thing, who are always glad to get loans which are made on a basis upon which National Banks are permitted to make them, which bear a nice rate of interest. It is regarded as quite readily negotiable.

Q. Having regard to our Branch System of banking, would you consider it wise for our banks to have such opportunities for investments? Or let me put the question in another way. Do not these loans in real estate more or less

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tie up liquid capital?—A. It depends, of course, on what relation they bear to the deposits which are other than demand deposits. It strikes me, however, that the making of such loans with a Federal Farm Loan Bank or such an agency, if it might be established in Canada, would be preferable to letting your banks go into the real estate loan business.

Q. In other words, it is not strictly the function of banks, under our system, as far as you can see?—A. It is not.

*By Mr. Maclean:*

Q. But it is in the States, under their system?—A. It is not. It is permitted, but the wisdom of too much real estate in the banks is very much questioned by conservative bankers.

*By Mr. Marler:*

Q. Now, Mr. Pole, we have discussed at great length the question of a Federal Reserve System in this country, and you read a very clear statement this morning. I want to ask you one or two questions in regard to this. You have gone over carefully the Finance Act and explained it to us; you have gone very carefully into the system of Branch Banks in this country; can you see any advantage, in so far as our Branch Bank System here is in vogue, in having a Federal Reserve System similar to or akin to that in the United States?—A. Assuming the functioning of the Finance Act on proper administration, I should see no particular advantage.

Q. Now, the question was brought up by Mr. Shaw as regards a central bureau of inspection. Is that the way you put it?

Mr. SHAW: No, I said a banking bureau, or a banking commission.

*By Mr. Marler:*

Q. Very well, a banking commission with the right to make inspection. We took up yesterday and the day before the question of bank inspection and you also read us a statement this morning. That defines the question, as you are aware, of interior inspection and a kind of audit and the various other matters which came up in that respect. I understood you very clearly to say, did I not, that that inspection, coupled possibly with a small bureau to collate, bring together and re-inspect these reports would, in your opinion, be a perfectly safe system of inspection in so far as the depositors are concerned?—A. I intended to convey that idea.

Q. In other words, you are quite positive on that subject?—A. I am quite sure.

Q. Can you see any particular advantage of a further issue of notes?—A. I do not know what the requirements of the country are, but I understand there is no shortage of a circulating medium in Canada; and that being the case, there would be apparently no necessity for a change.

Q. In other words, the creation of a Federal Reserve Bank, or any bank of that description, would not increase the circulation in any way to assist the commerce of the country?—A. Under the Finance Act, I presume it amounts to an additional issue of Dominion notes secured by collateral other than gold.

Mr. MACLEAN: But these Dominion notes disappear and bank notes come into place. That is the tragedy of the situation. We have seen it time after time.

*By Mr. Marler:*

Q. We are questioning as to whether the bank notes' circulation is sufficiently liquid or not. That is the question I asked of the witness, and I think his answer to that was "Yes."

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Mr. SHAW: He said he was told. Perhaps he would tell us the source of his information.

Mr. MARLER: Mr. Pole has gone very carefully into this system in vogue here at the present time.

Mr. McMASTER: Whom with?

Mr. MARLER: With himself. He has made up his own mind, and he seems to have drawn very fair conclusions. He seems to have a very firm grasp of the situation.

The CHAIRMAN: I do not think it is fair to ask where Mr. Pole got his information. The Committee can judge if it is information he has given to the best of his ability.

Mr. COOTE: I want to suggest that Mr. Marler should question the witness as expeditiously as possible. You suggested we adjourn at 12.30, and that Mr. Good and Mr. Cahill would have an opportunity of asking questions.

*By Mr. Good:*

Q. Mr. Pole, I think there has been some misunderstanding regarding the application of the Federal Reserve principles to Canada. I want to state for your information that I have never heard any proposition here as to superimposing upon the present machinery which we have for discounting, and so on, but there has been a definite proposition, as Mr. Ladner has stated, last year, which has not received much consideration as yet, for the co-ordinating of the re-discounting facilities under the Finance Act, or inspection, or whatever it may be, of a public character—and outside inspection, the disciplinary powers of the Canadian Bankers' Association, and the operation of a Central Gold Reserve. I would like you to again state whether or not you concede that that co-ordination might be a very profitable thing for Canada under the circumstances?—A. That a system of examination as outlined in my remarks would be a profitable thing?

Q. Yes, that system of examination of the simultaneous and co-ordinated management of the Finance Act—the administration of the Finance Act, and the administration of a Central Gold Reserve, and possibly any disciplinary powers which are now exercised by the Canadian Bankers' Association. Would it be in the interest of Canada that these various functions now performed separately should be co-ordinated under one central board or commission or bureau?—A. I should say that with the possible exception of the Gold Reserve, a bureau which performed one of these functions would perform the others, and that such a bureau, which I was rather under the impression was in existence, should certainly be created.

Q. I desire to follow Mr. Shaw's question by putting a special case. Supposing a Canadian Bank which is not subject to governmental inspection—take the Home Bank—had applied to the Treasury Board for advances under the Finance Act, and supposing the only statement that the Treasury Board had access to should not reveal the condition of that bank, or if so, supposing the officials of the Treasury Board were not capable of interpreting that statement, and heavy advances were made to an insolvent institution. Would that be injurious, in your judgment?—A. I should say that the Finance Board would be subject to censure for knowing little or nothing about the bank to which it was making advances, and I think that primarily the security to which the Finance Act looks, would be that which was offered by the bank, although coupled with that it would be very necessary for the Board to be informed as to the conduct of the affairs of the bank.

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Q. Then would it be advisable, in your opinion, that those in charge of the rediscounting process, or the advancing of money under our Finance Act, should have some pretty definite knowledge of the bank's condition, the condition of the bank making application for a loan, and the management of that bank?—A. I think it would be quite essential.

Q. That the inspection service and the administration of the Finance Act ought to be, in your judgment, coupled very closely?—A. Very closely, I think the reports of examination which are made, with a careful analysis of all the bank's assets, together with comments on its management, and of its affairs in general, should be accessible to those gentlemen who had authority over the making of these advances to such banks.

Q. Do you think it highly desirable that the administration of the rediscounting process should be in the hands of capable and experienced men?—A. Decidedly.

Q. How far, in your judgment, is the present rather regrettable conditions of the American and the Canadian banks due to the inflation which took place during the years from 1916 to 1920, and the subsequent deflation? How far has that been a factor in the present unfortunate condition?—A. Undoubtedly a very large factor. The fact also of injudicious banking enters into it, in that it has not been able to see far enough ahead, and these fallen prices have been taken advantage of without being able to see the results of this tremendous rise in prices.

Q. Would it therefore conduce or contribute to the stability of our banking institutions, generally if those periods of inflation and deflation could be controlled; if we could get greater stability in the price level?—A. I think that would aid greatly any banking system, the stabilizing of credit.

Q. Would it therefore protect the depositors if the general price level could be stabilized. What I mean is, if the stabilizing of the price level would contribute to the stability of the banks generally, would it therefore contribute to the safety of deposits and depositors?—A. That is an economic question which it is very difficult to answer, but I should answer in the affirmative.

Q. Is it a function of the present Federal Reserve Board in the United States to so regulate the interest rate or the rediscount rate, that a greater stability, of stabilization of the price level may be secured?—A. Of interest rates?

Q. Inflation and deflation—that is what I mean?—A. That is a factor which is taken into consideration.

Q. Would it be possible for that particular regulation to take place or be carried into effect, if you had not a Central Bank? Take the condition prior to the establishment of the Federal Reserve System and Board; was it possible then to regulate the interest rate in the direction of stability as it is now?—A. It was impossible under those conditions. Of course, under the present conditions, the Federal Reserve Banks make their own rates with the advice of the Federal Reserve Board; and the rates in one Federal district may differ from those in another, although in practice it is found that the difference is very slight, that the prices are pretty well stabilized.

Q. The Federal Reserve Board more or less represents the public in the United States, does it not?—Does it represent the banks, as distinguished from the general public, or the public, as distinguished from the banks?—A. It represents the public.

Q. And therefore the Board is supposed to act to the best of their ability in the interests of the public?—A. Correct.

*By Hon. Mr. Stevens:*

Q. Appointed by—A. The President.

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*By Mr. Garland:*

Q. On the advice of anybody?—A. No.

Mr. GOOD: One or two questions have been handed to me by Mr. Coote, but I would prefer to allow him to put them to the witness.

*By Mr. Cahill:*

Q. Mr. Pole, do you think that the present banking system in vogue in Canada is susceptible of competent government inspection?—A. I feel that way, with certain additions to the system.

Q. I understood you to say that a Federal Reserve System would not dovetail in with our present system in Canada. Would you express an opinion as to which system is preferable, having regard to the safety of depositors and service to the country, the Branch Bank System, as in vogue in Canada, or the local system as operating in the United States?

The CHAIRMAN: May I suggest that you add to that question "having regard also to the conditions in the United States and conditions generally in Canada"?

Mr. CAHILL: I prefer to ask my own questions in my own way.

The WITNESS: That is a large question.

Mr. McMASTER: I suggest that the witness allow no national modesty to interfere with a frank expression of opinion.

The WITNESS: It is such a very wide question, as to whether Branch Banking or the Unit System of banking would be preferable, or better adapted to this country, that I could hardly express an opinion on such short notice.

Mr. RYCKMAN: You have both systems in the United States.

Mr. CAHILL: Is Mr. Pole to appear before the Committee at a later date?

The CHAIRMAN: I am afraid not. He has to return to New York this evening.

Mr. CAHILL: Perhaps he would be willing to give us an answer in writing at a later date.

The CHAIRMAN: If the Committee is agreed, I have no objection to asking Mr. Pole, if he feels that he can do so, to put his answer in writing, and make a written statement to the Committee in respect to the question put to him by Mr. Cahill.

Mr. MARLER: We would have no opportunity of examining Mr. Pole on that subject. There are dozens of questions that we might ask him which would enable him to more intelligently prepare an answer of that kind. He might arrive at an entirely erroneous opinion.

The WITNESS: May I ask you to repeat that question. I understood the question to be "Is the Branch Banking System better adapted to the scheme of things as used in Canada than would be the Unit System of banking?"

Mr. CAHILL: That is about it, having regard to the service to the community and the safety of depositors.

The WITNESS: It is entirely possible that a Branch Banking System might be well adapted to the needs of the country.

*By Mr. Cahill:*

Q. What is your opinion as regards the United States? Do you think the Branch Banking System, as we have it here, would accommodate the American public as well as the present American system?—A. Nothing like as well.

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*By Mr. Coote:*

Q. Would you like to see, Mr. Pole, the United States limited to fourteen banks, and four of these banks controlling 70 per cent of the deposits of the United States?—A. By no means, because if there were four banks controlling the deposits of the United States, it would probably result in one man controlling all four, and the position would be entirely distasteful to the American public to have the control of the finances in the hands of one individual man.

Q. It is easy to suppose then that such a system in Canada might place the financial control of Canada in the hands of one individual?—A. I can see the danger of that.

Q. And if that were done, do you think it would be in the interest of Canada—if that should occur?—A. There would be danger attending such a principle.

Q. Now, Mr. Pole, would you give me your opinion as to whether a bank clerk from New York would be capable of managing a country bank in the Western States?

The CHAIRMAN: Do you think it is quite in order to put that question?

Mr. COOTE: Mr. Pole does not need to answer it, if he prefers not to. I am not elaborating on the question, because the time is very limited.

The WITNESS: As a general proposition, no.

*By Mr. Coote:*

Q. Under the United States System, do you have in some cases five banks in a town with a population of from 1,500 to 2,000 people?—A. There are a few cases.

Q. It is not general?—A. Not general, although competition is quite rife.

Q. Would you care, just giving your own opinion, to live in a town where there was only one bank, and where the control of that bank was exercised 2,500 miles away, that being the only place in which you could do banking business? I will put it another way, would you feel that you were under a disadvantage under such a system as that, compared with a system under which you have a bank under local control?—A. I think that the preference is greatly in favour of the bank which is under local control.

*By Mr. Ladner:*

Q. Have any profits been turned over to the Government by the Federal Reserve Board since its inception, and if so, can you give us an idea of the amount?—A. \$135,000,000.

*By Mr. Healy:*

Q. I understand that you are going to give us an answer comparing the branch bank system with the Unit system?—A. I did do so.

Q. Well, having in mind that you have both systems in the United States—when I make that statement I am referring particularly to your fifth largest bank which operates in the State of California and also in the New York district, the Bank of Italy—having in mind both systems, can you give us your opinion as to how they work in the United States and as to which is the better for the people?—A. Branch banking in the United States operates on an extensive scale in that portion of the State of California, and the largest of the banks in California having branches is the Bank of Italy. The Bank of Italy has acquired its branches so very recently that it would be difficult to say as to the satisfaction with which it has operated. I do know that there has been a good deal of complaint as to the method whereby those branches have been obtained. The Bank of Italy has been accused of going into the small towns which had banks

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supervised by high class local men and hiring out of those banks employees at very largely increased salaries, so that it made it almost impossible for the local bank to function. The Bank of Italy's branches might function at a very serious loss locally, but it would make no difference to the Bank of Italy, because it would be only for a short time. The Pacific Southwest, which is probably the second largest branch bank in California, is surrounded with more or less the same conditions, and is accumulating branches very, very rapidly, but none of them have been in operation long enough to enable me to express an opinion as to how satisfactory they may operate.

*By Mr. Ryckman:*

Q. What is your view as to the Bank of Italy invading the New York district? How is that looked on in the United States? It is becoming a national system as soon as they cross the continent?—A. International.

Q. National.—A. International. I think that is the ambition. The Bank of Italy has already its connections in New York, and the stock of the Bank of Italy and its various affiliations is in the hands of a holding company very frequently, but if the Bank of Italy expects to continue as a member of the Federal Reserve System it cannot acquire any more branches, because that would not be permitted by the Federal Reserve Board.

*By Mr. Euler:*

Q. Why do you call it "International"?—A. Because from the standpoint of ambition, it is. I understand Mr. Gionninni wants to make his bank not only cross the American continent, but to go to Italy and other countries.

Mr. MACLEAN: It is not international as far as Europe is concerned.

*By Mr. Ryckman:*

Q. No, it is American entirely?—A. Entirely.

The CHAIRMAN: I am sorry to say that we will not have the pleasure of having Mr. Pole here again, because the sitting this afternoon will be more than taken up by Mr. Williams' evidence, and Mr. Pole has to leave to-night. I think I voice the sentiment of the Committee in expressing to Mr. Pole our most sincere gratitude for the willingness with which he has come from Washington to Ottawa to give us his valuable opinions, in respect to the system that prevails in the United States, and may I also express through him to the Honourable Mr. Mellon, the Secretary of the Treasury of the United States, our gratitude for having suggested his name, and allowed him to come.

Mr. POLE: Mr. Chairman and gentlemen, I should like to thank you for the uniform courtesy with which I have been received here. I have enjoyed my visit to Ottawa very, very much, and I thank you.

EXHIBIT No. 6. The Federal Reserve Act as amended to 1923, filed by witness. (Not printed.)

The witness retired.

The Committee adjourned.

The Select Standing Committee on Banking and Commerce resumed at 2 p.m., Mr. Vien in the Chair.

The CHAIRMAN: Gentlemen, we have the pleasure of having with us this afternoon, the Hon. J. Skelton Williams, formerly Comptroller of Currency in the United States from 1913 to 1921. He was for more than thirty years Director, Vice-President, President and Chairman of Trust Companies and banks, both National and State, in the South, Baltimore and New York

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City. He was President and Chairman of the Trust Company Section of the American Bankers' Association; a member of the executive council of the Bankers' Association; and for eight years was First Assistant Secretary of the Treasury, and Comptroller of the Currency. About twenty-eight years ago he became president of a railway company in the South. Three years later he planned, organized and was President of the Seaboard Line, aggregating 3,000 miles of railroad. He retired from the management in 1904. Three years later, when the property got into difficulty following the panic of 1907, he was urged to return and participated in its affairs, aiding in its reorganization and he made a success of it to such an extent that the floating-debt creditors were paid in full without assessment to the stockholders, and the credit of the company was fully restored. He retired from the membership of the Board of Directors a few months before going to Washington in 1913. In 1913, he accepted from President Wilson and Mr. McAdoo the office of first assistant-secretary of the Treasury, and he was designated by the President as acting-secretary of the Treasury in the absence of Secretary McAdoo. When first offered to him, he declined the office of Comptroller of the Currency, but later on accepted it when it was offered a second time, and became an ex-officio member of the Federal Reserve Board.

In 1917, when the railroads were taken over by the Government, he was appointed by the Director General McAdoo director of the Division of Finance and the Division of Purchases, until 1919, when he resigned. He was in 1918 a member of the Capital Issues Committee, and as such approved or rejected applications for the issuance of new securities.

I am sure, gentlemen, that I voice your sentiment in expressing to Mr. Williams our heartiest welcome, and in thanking him for having taken the trouble to come to Ottawa to give us his valuable assistance in the elucidation of the problems that we have to study in the present session of Parliament. We are very sorry indeed that Mr. Williams has found it impossible to give us more than the afternoon. He is obliged to return by the train leaving Ottawa at 5.25 p.m.; and I would therefore suggest that he be allowed to make his statement without any interruption whatever. It will, I think, assist him and assist the Committee if he is allowed to do so, and if there is any time available, I am sure that Mr. Williams will invite questions that may suggest themselves to hon. members.

Mr. W. F. MACLEAN: Perhaps he might be able to complete his statement and give us an hour for questioning.

Hon. JOHN SKELTON WILLIAMS called and sworn.

WITNESS: I wish to thank you, Mr. Chairman and gentlemen, for your generous introduction and also for the privilege which you have given me of making an uninterrupted statement in regard to the matters about which you wish me to talk. I wish to say that I will be very glad if any one who cares to ask me any questions at any point of the statement, would do so, because you will not in any way disconcert me by asking for any further information on any point which I do not make sufficiently clear to you.

As I understood the telegram which I received from you, Mr. Chairman, at Richmond, a few days ago, you desire me to give some testimony or evidence in regard to the system of bank examinations as they were conducted in the United States during the period that I was Comptroller of Currency and ex-officio a member of the Federal Reserve Board. At the time I went to Washington, I held the position of First Assistant Secretary to the Treasury, and as such, had supervision of all the fiscal bureaus of the Government, including the office of the Comptroller of Currency, and the office of Director of the Mint,

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and other fiscal bureaus. As First Assistant Secretary to the Treasury, I took an active interest in the matter of administering the Comptroller's bureau, for the special reason that the former Comptroller resigned soon after the present administration took charge, and there was a vacancy in the office from the time of his resignation until February, 1914. In that interval the Federal Reserve Act was passed, and under the Federal Reserve Act the duties of the Comptroller of Currency were enlarged. The Comptroller of Currency, besides the duties which had formerly devolved upon him, became a member of the Federal Reserve Board. It was after the passage of the Federal Reserve Act when the Comptroller of Currency was made ex-officio a member of the Board, that I was again offered the position of Comptroller of Currency and I accepted the office. Prior to the passage of the Federal Reserve Act, the system of bank examinations in the United States was very ineffective and inefficient. One of the objections to the methods then in vogue was the fact that the bank examiners were paid on the fee system and not on the salary system; and according to the provisions of that fee system, it became very much in the interests of a National Bank examiner who was looking after his own comfort and emolument, rather than after the welfare of the banks, to cut short some of the examinations and perhaps linger on others. Under the old system a bank with a certain capital paid a certain fee for the examination. For example, we will say that a bank of a certain size was required to pay the examiner a fee of \$25. It might be that one bank with a capital involving the \$25 fee would have small assets, while another bank with the same capital might have assets five times or ten times as great; but the tendency among the examiners was sometimes to shirk their duty and responsibility. As a matter of fact, there was a rumour when I went to Washington that a bank had been known to be examined by telephone. There were no telephone examinations under the new order of things, I can assure you. Under the system which has prevailed since the inauguration of the Federal Reserve System examiners are all paid on the salary basis. The salaries range from \$2,400 a year to \$16,000 or \$18,000 a year, which is the salary paid in New York City.

*By Mr. W. F. Maclean:*

Q. He gives all his time?—A. The examiner gives all his time to the service. I think that the chief examiner of the New York district is the only one who gets as large a salary as that. Other salaries for the large cities range from about \$7,000 or \$8,000 up to \$12,000 or \$13,000. At the time we took charge of the Comptroller's office there were field examiners only. I think there were something like 100 or 120 field examiners. These examiners were assigned to certain special districts. They were expected to examine all the banks in their respective districts twice a year. The districts were mapped out by the Comptroller's office in such a way as to make it possible to have the examinations made as prescribed by law, two examinations a year. When the Federal Reserve Act was passed, or soon thereafter, I put into effect a somewhat different system. I divided the National Bank examiner force into 12 districts which were co-terminus with the 12 Federal Reserve districts; and in each of those 12 districts I appointed a chief examiner, to whom the field examiners of the district made their reports. As a result of having those 12 districts in New York, Boston, Richmond, Dallas, San Francisco, Chicago, and the other Federal Reserve cities, we had a very much closer supervision of the National banks than was possible under the old plan. Those field examiners in making their examinations of the banks would send a copy of their report to the chief examiner in San Francisco, Dallas, Minneapolis, or whatever it might be; and would also send a copy of the same report to the home office or the Comptroller's office. When the report from the field examiner

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reached the Comptroller's office it was digested in one of the six divisions in which the Comptroller's office is divided, namely, the Examiner Division—perhaps it would be well to say right here that the Comptroller's bureau has five or six separate divisions—a division of examination, a division of statistics, the insolvent division having to do with failed and liquidating banks, the organization division having to do with the organization of new banks, the consolidation of banks; and a book-keeping division, the chief clerk's. Each of these divisions in the Comptroller's office has a head or chief of division, and they report to the Deputy Comptroller and through him to the Comptroller. In the examiner division the report of the field examiner is analyzed. Violations of the law are noted, laxity or loose management, and a letter is then prepared and sent direct to the bank on the examination. In writing to a National Bank, through the Comptroller's office as to derelictions or infractions of the law, or loose methods, it is customary for the Comptroller to instruct the bank to which the letter is addressed to read the letter to its board of directors before the next meeting and to reply and to have their reply sanctioned and approved by their full board. In addition to the field examiner and the chief examiner it was found desirable a few years before I resigned from the office to have what we call supervising examiners also. Those were examiners at large; perhaps four to six supervising examiners, each to have charge of from one to three of the main districts, the 12 districts into which the country is divided. Those examiners, in addition to making examinations of banks, were expected to supervise the examiners themselves and make reports to the Comptroller as to the efficiency or merit or demerit of the different examiners with whom they would be thrown into contact. It was a kind of check on the examiners as well as on the banks.

That is briefly the system of National Bank examination as practiced during the seven years that I had the honour to hold the office of Comptroller of Currency. I do not suppose that it would be worth your time for me to go into detail as to the methods of the examiners in conducting an examination, but I will say this, that those examinations were very thorough and very impartial. I have reason to be proud of the young men whom I was fortunate enough to have in the Comptroller's bureau to help me during those seven disturbing and nerve-racking years, from 1913-14 to 1919. Every examiner was given to understand that he had to report to no one but the Comptroller of Currency, and that there was no one to give him any instructions or turn him aside from his task except the Comptroller. They also knew that as long as they did right and were fearless in the discharge of their duty they would have the unqualified support of the Comptroller. I ascribe to that fact largely the success that we met with in examining banks and keeping them in a clean and strong condition during those years. There was no political influence, or any other influence that could turn an examiner aside or make him deviate a hair's breadth from the line of duty in making his examination of any bank. That condition of things would have been impossible if it had not been that I had the good fortune to have the absolute support of President Wilson and Secretary McAdoo. President Wilson and Secretary McAdoo wanted to have the banks kept in a clean and strong condition, and there was no political influence which caused them to suggest for one moment that anything should govern the examination of banks except the highest standard of business morality and ethics. We, of course, at some time had influences of one kind and another which were not favourable, but it was not long before everybody was given to understand and they learned that banks were being examined fearlessly and thoroughly. Now, as a result and fruit of that course of action and of these principles it was my proud honour to be able to report to the President in the year of 1919, shortly before retiring, that with eight thousand National

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Banks, and more than twenty million depositors, and more than \$22,000,000,000 of resources, there was not one dollar's loss to any depositor in any National Bank in the United States. Of course, the relentless discharge of the duties which at times was difficult, and embarrassing, antagonisms were created, and there were a great many complaints of one kind or another which would be made usually indirectly, but I also have the pleasure of stating publicly that upon no occasion during those years was any complaint ever submitted to the Comptroller's office which showed any dereliction or failure to perform fearlessly the duties of that office by the Comptroller and those under him, in the Washington office. I might mention in this connection that shortly before they closed the Wilson Administration, when the President sent for the third time to the Senate my nomination for Comptroller, there were political influences which attempted to prevent my confirmation, and open hearings were held by the Banking and Currency Committee of the United States Senate, and it was a very great gratification to me to realize that, notwithstanding the repeated invitations to have the bankers of the country come forward with any meritorious complaints against the Comptroller's office, I do not think that there were any executive of any National Bank of the United States who dared to come forward and make a complaint in the open.

Document entitled "Chart of Federal Reserve Districts" filed as EXHIBIT No. 7. (Not printed.)

The WITNESS: I will take the liberty of reading one or two extracts from the Comptroller's report for the year 1920 (EXHIBIT No. 8). I spoke just now of the record of National Banks for 1919, and this is of 1920. (Reading):—

"In the matter of immunity from failure the showing for the past twelve months has been the best in about forty years, with the sole exception of the fiscal year of 1919. The total capital of the five small National Banks which failed during the year was \$225,000, or 17/1000 of 1 per cent of the total capital of all National Banks. This percentage is about sixteen times better than the average for any other period of the fifty-seven years from the inauguration of the National Bank System to the present time."

One question would naturally arise is that while the system in operation seemed to work well in the interest of depositors in National Banks, it was such an annoyance and such a harrassment and was so costly to the National Banks that they were prevented from earning. We tried to be fair to both sides, to take care of the depositors as well as the stockholders, and from a stockholder's point of view this will be interesting:—

"The earnings of the National Banks both gross and net have surpassed all previous years. The net earnings for the twelve months ending June 30th, 1920, amounted to \$282,000,000, an increase of \$41,700,000 over the previous year, and an increase which has taken place in the net earnings of the National Banks in the past seven years has exceeded by \$18,000,000 the total increase in earnings shown for the forty-three-year period from 1870 to 1913."

That is a case where virtue was rewarded. So much for the result of the discipline exercised by the Comptroller's Bureau in the matter of protection of depositors, as well as of the bank. Did banks grow in resources?

"During the last fiscal year the resources of the National Banks reached the highest point in their history, being, on January 1st, 1920, \$22,711,000,000, showing an increase as compared with the report for January 1st, 1919, of \$2,600,000,000. In the six months following January 1st, 1920, the resources of the National Banks declined to \$22,196,000,000, at which figure they stood on June 30th, 1920.

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"That is, in the seven-year period from June, 1913, to June, 1920, the resources of the National Banks increased \$11,159,000,000, which is more than the total increase which took place in the entire fifty years from the inauguration of the National Bank System in 1863 up to 1913."

I wish to say, Mr. Chairman and gentlemen, that this success which attended the administration and supervision of the National Banks was due very largely to the directors of the banks themselves, because they were informed and notified that they would be held responsible for the faithful discharge of their duties, and if they were negligent, or inattentive or remiss, or guilty of violations of the law, they would be held responsible for all losses resulting to the bank, and in circulars and in communications from the bank examiners, and otherwise, this duty was impressed upon the directors in a way which they were not likely to forget. As an illustration of that, I will mention the case of one large bank which I discovered, as the result of an examination. It had been guilty of an infraction of the banking laws, and had made an *ultra vires* investment. I sent for the President of the bank to come to Washington, and called his attention to this unlawful investment which had caused a loss of \$1,000,000 or more to his bank. It had been made several years previously, and he protested that he was not responsible for it, that he was not the President of the bank then, and he said, "The other directors are not responsible for this loss," and he said, "There were only two of them who knew anything about that." I said, "Who are they?", and he mentioned the name of one of them, whose name is familiar to all of you gentlemen, and the other is in Europe. The first man he mentioned is now no longer living. I said, "I cannot help that, the law has been disregarded, your directors ought to have known about this whether they did or not, and I must ask you to pay back into the bank's treasury this loss." There were some ameliorating circumstances; this had happened a year or more before, so we finally adjusted the matter by taking these conditions which he brought up into consideration, and we told him that he might settle the matter by paying \$500,000 into the bank's treasury; so his directors got together and out of their own pockets paid into the treasury of the bank the sum of \$500,000, and when I saw him a year or two afterwards, before I left Washington—this was not a Washington banker—I said that I thought that that investment which his directors had made of \$500,000 was probably the best investment that they had ever made. It was by lessons of that sort that impressions were made upon the banks to try to uphold and obey the laws.

*By Mr. McMaster:*

Q. Was there any penalty besides the restitution?—A. Not in that particular bank. Of course, there were a number of cases where bank officers were convicted of various violations of the penal statutes, and were sentenced to fines and imprisonment in some cases. I think it might be interesting to your Committee if I should mention the case of a bank in New England which had in its employ a man who was unworthy of the job which he held. Notwithstanding the fact that the executive officers of the bank knew that this particular employee or officer was not a man of character, who could be trusted, they retained him in the employ of the bank, and presently he made away with two or three hundred thousand dollars of the bank's funds in one way or another, and we had to bring suit against the President, claiming that he knew that the man whom he employed was unworthy of confidence, and was responsible for the losses resulting from his negligence, or worse. The case was carried to the Supreme Court of the United States. Meanwhile, the President of the bank died, and when the case was finally decided by the Supreme Court of the United States, the estate of the bank president paid over to the creditors of

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the bank the sum of \$300,000. The bank officers throughout the country knew that the examinations which were being made were real ones, and that infractions of law were not going to be condoned or passed over lightly, with the results which I have shown you. I think it is especially worthy of note that these extraordinary results were due, as I say, to the officers of the banks themselves, because they looked after the banks' affairs, and they tried to obey the law, excepting a comparatively small proportion of officers who were unworthy of the positions they held, and in many cases have paid the penalty already. But the directors of these banks felt and realized they had a real responsibility, and they tried earnestly to do their duty with the result that it aided immensely in keeping our banks in a sound condition during the World War, and enabled them to function 100 per cent at the time when it was more important than at any other time of the world's history that the banks should be sound and clean.

Now, I should say that from time to time the Comptroller's Bureau would send out circulars to the member banks, or National Banks, calling attention to abuses of one kind or another which might be found to prevail among certain banks, and they were admonished to prevent infractions of law and to improve such conditions, if possible.

Q. It did not take you long to find these things out?—A. It did sometimes. Sometimes they were very skillful in covering them up, but we had very skillful and able examiners and we went to the bottom of things, and we had men who could not be turned aside from their duty by any threat from any bank's officers or any politicians or anyone else. I will say that the purpose or object of the Comptroller's office was to keep the banks clean and make them obey the law, and there was no desire to revenge or punishment of the guilty. On the contrary, there were rejoicings over the turning of a badly managed bank in a well conducted institution, and there were many times when banks were lifted from disaster by the hair of the head, almost. Some of them were half drowned, and had sunk for the second or third time, and we rescued them and restored them to life. There were a great many cases of resuscitation of that sort which were never brought to light, and never published, and we thought as long as there was life there was hope, and in many cases we have been able by moral suasion and the exercise of care and attention, to eliminate from National Banks unworthy officers and employees, and put in charge men who were entitled to be trusted. The Comptroller had no authority to remove bank officers. That was one amendment to the Bank Act which I thought might have been considered favourably—the matter of removing employees, but that had to be handled very delicately, but as it was, there were many cases where banks which had gotten themselves, through neglect of the ordinary practices of sound banking, into a wretched condition, are now strong, flourishing institutions. I would say that the examiners were kept informed from time to time from the Comptroller's office, as well as we could, with regard to the dangers that seemed to be ahead, or dangers that might prevail in any particular district, and they were warned, and in addition to that we would have meetings of the National Bank Examiners at the offices of the twelve Chief Examiners, from time to time, and there these young men, the field examiners, would be instructed in the duties of their profession and were in a position to confer fully with their immediate superior officers, the Chief Examiners, upon any matter upon which they desired light and guidance. These group meetings, which were held from time to time, were very beneficial. Also, the Comptroller met with the twelve Chief Examiners, and had conferences with them. The affairs of each particular district would be gone over, points of concern or danger discussed, and suggestions made for remedying them. The result was that the Comptroller's office was acquainted with conditions all

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over the entire country. Delicate and dangerous cases were not left to be handled by either the field examiner or the Chief Examiner, but where a case was particularly bad, we brought the President or other officers, or perhaps several of them, to Washington for conference, where their troubles were discussed and efforts were made to remedy them, and to prevent the recurrence of the abuses which had brought to them to an unhappy condition. It was by this theory and these methods and by close following and close direction, and close co-operation, as I say, of the directors of the bank, that we were able to report in the year of 1919, as I have stated, that there was not one dollar lost to any depositor in any National Bank in the entire country.

Now, Mr. Chairman, and gentlemen, if there are any points in connection with the examination of banks upon which any member of your Committee would like to have any further information, I shall be most happy to be questioned.

*By Mr. MacLean:*

Q. Was that superior to a State Bank examination?—A. I do not like to criticize our friends of the State Banks, but I have no objection to telling you that when I was in Washington the feeling at that time was that the methods of the National Bank examining forces were very much more successful in preventing bank failures than the methods in vogue in some of the States. In some of the States they had a very good system of State Bank examination, but in other States their system of bank examination was a farce, and it would surprise you to know that in some of the States where the system of bank examination was less sufficient, you would have expected it would have been more efficient. In other words, instead of examinations in some instances being conducted upon a thoroughly business-like basis, the object being the keeping of a bank in a strong, sound condition, the political influences crept in and interfered not only with the efficiency of the examination, but the class of examiners appointed to this delicate duty. I would say with regard to the appointment of examiners during the time that I was in Washington that no political influence could secure the appointment of any examiner, or the discharge of any examiner, and it was that knowledge on the part of the examiners that they held their jobs solely on their merits, to which I ascribe to a large measure the success of our work. As a matter of fact I had the opportunity and pleasure of appointing a good many examiners from the opposite party to that to which I belonged, and I never discharged an examiner for a political reason.

*By Mr. Cahill:*

Q. How long were they appointed for?—A. During good behaviour.

Q. They were not subject to dismissal by a succeeding government?—A. They were subject to dismissal or change by the Comptroller of the Currency.

Q. Only?—A. The Comptroller of the Currency.

*By Mr. Shaw:*

Q. You suggested that you were in favour of the Comptroller of the Currency having the right to remove bank officers?—A. I should say for proven offences, for negligence, or derelictions in office.

Q. Now, sir, would you mind telling us what would be the Comptroller's action in the event that a bank was found to be either violating the law or refusing to carry out your instructions? How would you give effect to your action, if it became necessary to do so by reason of your power?—A. It would depend to a large extent upon the character of the offence. The violation of law of one kind would be handled one way, and perhaps another would be handled in another way. Where a man was a persistent offender, or his



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breaches of law were flagrant there was a method by which we could have a receivership applied for by process of court to have a bank, although solvent, placed in the hands of a receiver.

Q. Could the Comptroller close the bank himself?—A. I have never known a case of a bank being closed excepting for insolvency, by the Comptroller. Of course, a threatened insolvency and a continuous dereliction, or violation of law would bring about the court procedure which I have suggested.

*By Mr. Ryckman:*

Q. Were any banks closed during your term of office?—A. Yes, I shall be glad to show you what was done. In 1914, that was the first year, there were twenty-one failures; the next year there were fourteen; the next year there were thirteen; the next year seven; the next year there were two; but in the year 1919 there was only one bank failed, which was paid out in full.

Q. How would you be able to do that without loss to the depositors?—A. We realized a sufficient amount on the assets of the failed bank to pay the depositors in full.

Q. And would you tell us how you so soon arrived at the point where you could close a bank in order to protect the depositors?—A. When we found the bank in an insolvent condition, unable to meet its obligations, we would appoint a receiver. Receivers are appointed by the Comptroller of the Currency. I would like to branch out, there for a moment, to say that a great deal of the success in administering a failed bank depends upon the character of the administrator or the receiver, whether he is a man who knows his job, or whether he does not. Great pressure was brought to bear upon us to put politicians in there, men who were looking for jobs, but we refused to do that unless the politician happened to be a man who was competent and efficient and honest, and as a result of putting in trained men, and men upon whom we could rely implicitly, we had a most extraordinary record, even in opening the few banks which did fail, of administering the trust at a minimum expense. There is no comparison between the expense involved in the administration of the National Banks and some of the State institutions which have gone wrong.

*By Mr. Euler:*

Q. Have you the absolute authority to close a bank when you know it is insolvent, even if it does not declare itself?—A. The Comptroller of the Currency can exercise his discretion in that matter.

Q. Would you take the report of an inspector, or would these inspectors know within a given time that a bank was insolvent?—A. The bank usually knows when it can go on or cannot. When it cannot cash a cheque over the counter, it is time to close a bank.

Q. But they may not declare themselves insolvent?—A. Yes, but we could put a bank examiner in charge until they were justified in declaring they were entitled to a receiver.

Q. Under your system you would find out that such insolvency existed?—A. We think we would. We have been very successful in finding out.

*By Mr. Cahill:*

Q. And you have the authority to close a bank or put a receiver in charge if you believe the bank insolvent?—A. Of an insolvent institution.

*By Mr. Hughes:*

Q. In the case of the banks you referred to as failing, had you to call for the double liability of the shareholders, and particularly the ones where the

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deposits were paid in full?—A. We sometimes find this condition; that the bank is absolutely insolvent on its present paid-in capital. We would assess the stockholders 100 per cent, or a fund sufficient in the judgment of the Comptroller to restore it to solvency. If these people would then pay in their 100 per cent investment, or such portion as might be called for by the Comptroller, the bank might be permitted to continue in business. Of course it is conceivable that a bank may be solvent—eventually solvent, and yet unable to continue in business. In other words, they have not the cash resources to pay cheques which are presented against them. I had a very curious case of that. I recall one occasion of a bank which was atrociously managed by its president, and I appointed a receiver to take charge of the bank and administer the bank for several years. The administration of the Receiver was so successful that the depositors were paid in full. I think something over \$100 a share was returned to the stockholders.

*By Mr. Garland:*

Q. You told us that in the event of a bank being found in difficult circumstances, an assessment might be made on the shareholders, the amount varying?—A. Not exceeding 100 per cent of the total stock.

Q. In that event, does that relieve the shareholders of that portion of the double liability then paid in?—A. Yes.

Q. It does?—A. Yes. The stockholders are only liable for 100 per cent of that stock.

Q. The witness states that the bank may be permitted to continue business with the impaired liability?—A. No, they cannot cut the capital. Say that a bank has \$100,000 of stock, capital stock, and we will say \$400,000 of other liabilities, making the total liabilities \$500,000. Now, they lose by bad loans \$100,000 which wipes out their stock. We can call on them. Or we will say it loses \$200,000; we can call on them to put up 100 per cent. That enables them to pay their debts in full, but of course, leaves nothing for the shareholders.

*By Mr. Shaw:*

Q. Suppose that the bank you have mentioned goes on doing business, but subsequently becomes insolvent, are the shareholders liable—A. Not for another assessment.

Mr. W. F. MACLEAN: It is a limited liability.

*By Mr. Good:*

Q. Are your banks generally operated on the double liability scheme?—A. All National Banks.

*By Mr. Garland:*

Q. Do I understand you correctly; perhaps I have not caught the point—do I understand that banks may be permitted to continue in business, having met their liabilities under the proposed plan of the witness, even though the total liability is impaired, indeed exhausted, it may be?—A. For the time being, yes.

Q. In the event of a bank in the future running into difficult circumstances it would not have the double liability reserve to fall back upon if it is exhausted?—A. You can only assess them once.

*By Mr. McMaster:*

Q. Sir, there has been a suggestion made before this Committee that the double liability provision was a deterrent to the placing in a bank of capital and that therefore it was on that ground an unwise provision. We would like

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to have you opinion on that.—A. I think it has been a very excellent provision to the National banks. There are some States that require double liability of State Banks. I do not recall them at the present time. There are others that do not require the double liability. I think it is a conservative safeguard.

*By Mr. Benoit:*

Q. Can you assess the double liability at any time?—A. Only once.

*By Mr. Cahill:*

Q. Having regard to the banking system in Canada with 4,000 or 5,000 branches, I presume you understand that we have 14 banks—A. Yes. And 4,000 branches.

Q. Extending all over the country, some of them nearly 3,000 miles away; do you believe that a system such as you have mentioned could be incorporated in Canada to take care of bank inspection in Canada under the existing banking system, and one that would be as efficient as the system you have just outlined?—A. Well, perhaps you will permit me to answer part of that question first. I am not prepared to say, without knowledge of the whole subject, as to the comparative efficiency which may be established in Canada as compared with the efficiency we have in the United States; but with my knowledge of the Canadian system, I see no reason at all why there should not be a system of independent examination of your banks, which would be efficient and satisfactory, and would prevent such failures as those that have sometimes occurred in the Dominion. I should probably add to that statement the further statement that the establishment of a system of that sort might involve some changes in the methods of conducting your branches, so that when an examiner goes into a branch he could examine that branch as a distinct and separate entity. As I understand it, the suggestion has been made that when you are examining a bank which has a great many branches, you cannot make a contemporaneous examination of all the branches, that opportunity is given for the juggling of paper or the fixing of accounts. I think it would be entirely possible for you to so amend your banking laws, if it is necessary to them as to reduce the danger of shifting accounts and balances to a minimum, so that when an examination is made of a branch you could tell pretty well whether it is a complete examination or whether the books, accounts and affairs have been shifted to some other branch main office. I think it is entirely possible to put into effect in Canada with your 3,000 or 4,000 branches a system of examination without requiring a contemporaneous examination of all the branches. I have had experience in examining banks with branches in Washington; not only branches in this country, but abroad. There was one large bank in New York which has probably 30 or 40 branches in South America, Cuba and Europe. I was able to make examinations of that bank and its branches which were entirely satisfactory to the Comptroller's bureau although those banks were separated by 3,000 or 4,000 miles.

*By Mr. McMaster:*

Q. Would you indicate briefly the method you followed in that connection?

—A. The first thing was to have thoroughly trained and efficient examiners, accustomed to the examination of banks, and who knew the points to be guarded against.

*By Mr. Cahill:*

Q. They went to those branches?—A. They went to those branches. This particular bank I have in mind had probably 50 branches in different parts of the world. Mr. Pole occupied a very important post in the examination department of the National Banking System, having charge as chief examiner of the Federal Reserve District of Atlanta. He has had a wide experience in the matter of

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National Banks, and I was very glad when I read in the paper this morning that he had had an opportunity of giving you the benefit of his knowledge and experience.

*By Mr. W. F. Maclean:*

Q. A head office examination would give you a pretty fair idea?—A. To show you what the examiners do sometimes and how much more examiners see than directors hear about, I may mention the fact that we sent one of our examiners upon one occasion to a large bank, and he had not been in there more than three or four days before he called the Comptroller's attention to the fact that the bank had sustained a loss of \$3,000,000, and they did not know anything about it. The directors did not know anything about it, yet the examiner found it out in three days.

*By Mr. Ladner:*

Q. Who did know about it?—A. The guilty officer.

Q. Was he a general manager or an assistant?—A. He was manager of a department.

*By Mr. Euler:*

Q. It is a fact that the United States Government makes an investigation of banks. Does that lead to any liability on their part to make good possible losses by depositors?—A. You mean the United States Government?

Q. Yes?—A. None whatever. There is no responsibility upon the Government to make good losses; the Government's part is to prevent losses.

Q. But if losses do occur, the Government is not responsible for making them good?—A. Certainly not.

*By Hon. Mr. Stevens:*

Q. We are interested particularly in studying the system of the United States and comparing it with our own, having in mind the difference of the two systems. May I refresh your knowledge of the system we have in Canada?—A. I would be happy to have you do so.

Q. Under our system the auditors are, of course, appointed by the bank. I will not read the whole section but only one or two portions of it, which will refresh your knowledge.—A. I read your Bank Act yesterday.

Q. For instance, as to the manner in which the auditors are chosen, and the improvement made in the Bank Act last year, I want to read particularly subsection 10 which appears to me to be really the most important paragraph of section 56.

"10. It shall be the duty of the auditors to report individually or jointly as to them may seem fit to the general manager and to the directors in writing any transactions or conditions affecting the well being of the bank which are not satisfactory to them, and which in their opinion require rectification, and without restricting the generality of this requirement they shall report specifically to the general manager and to the directors from time to time upon any loans exceeding one per cent of the paid-up capital of the bank which in their judgment are inadequately secured, but this provision shall not be construed to relieve any director from the due and proper discharge of the duties of a director. The report shall be transmitted or delivered by the auditors to the general manager at his office and to each director at his last known post office address and the said report shall be incorporated in the minutes of the directors' meeting first following the receipt of the said report."

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Having that in mind, together with the other facts in connection with the audit, does there appear to you to be a fair and reasonable audit of a bank?—A. It is all right so far as it goes.

Q. Very good. In addition to this you will of course recall that the banks in Canada maintain an inspection service; that is, inspectors corresponding somewhat in ability and in duties to the examiners of the United States Government?—A. Their own auditors.

Q. Corresponding so far as their technical knowledge or position is concerned, but of course, employees of the bank. These inspectors go from branch to branch throughout the country, and unexpectedly—invariably unexpectedly—inspect those branches quite thoroughly—I may use the term more familiar to you, they examine the banks most thoroughly. Having that in mind, plus the shareholders' internal audit and the fact that those reports have to be made to the directors, do you not think that that is substantially a sound system of inspection or examination of banks?—A. I do not think that any system of examination which is controlled and directed from inside the bank can be as effective, as complete and as thorough as an absolutely disinterested outside examination by a Government agency.

Q. It has been suggested by myself, and I am going to submit it to your judgment, because of your wide experience, that in this clause where it is provided that the auditor shall make his report to the directors and general manager and that a copy of that report shall be submitted to the Minister of Finance—and when I use the name of the Minister of Finance—.A You mean a copy of the auditor's report?

Q. Yes, that it shall be submitted to the Minister of Finance. That would be an addition to or an extension of our present system. Now, with such an extension, and having of course an officer qualified—we always assume that that will be the case—would not that meet the possible lack which you indicate you now see in our system as compared with your own?—A. I do not think that that would be anything like as effective as if you would submit it to some bureau or office under your Minister of Finance who is immediately charged with the supervision of banks.

Q. That is exactly what he would be?—A. And who would have his authority to send his own independent man to check up that audit. Perhaps I may be allowed to cover a point that I have not covered thus far: That is, the National Banks are already being examined by committees of their own directors, but it has been found that the examination by committees of their own directors do not begin to take the place of examinations which are made by the Comptroller's bureau.

Q. I quite understand. When I use the term "Minister," I use it just as you would use the term "Secretary of the Treasury."—A. The Comptroller's bureau is a bureau under the Secretary.

Q. Undoubtedly, any system inaugurated would have to have the machinery necessary and would have to have such an officer?—A. As I understand your question, it was as to whether some auditors selected by the bank itself would give as efficient an examination as auditors sent by the Treasury.

Q. Let me turn to one or two facts, and I do not want you to think that in asking these questions I am reflecting on the National Banking System in the United States; I am seeking for information?—A. I hope you will not feel any embarrassment in asking any questions. I will answer any questions you care to ask.

Q. I have a copy of Dun's report of bank failures and it corroborates your statement that during the 7-year period that you were Comptroller



of the Treasury there was a very healthy condition in the National Banks. That is shown in this statement. Subsequent to your retirement, I think in 1920, this report shows that in 1921 there were 47 failures of National Banks and 357 State Banks; in 1922 there were 35 failures of National Banks and 242 State Banks; in 1923, 77 failures of National Banks and 501 State Banks. and in the first 4 months of 1924 there were 64 failures. Now, I want to ask you—A. Right there, from the figures you have just read it appears that there were more failures last year than there were in the entire 7 years that I had the honour of supervising the National Banks.

Q. Quite true?—A. You want to know why with a continuance of the system of examination which was in force in those years there has been such an outbreak of failures?

Q. I was going to put the question in this way, if you will permit me: This is where I may be accused of having a little indelicacy in the question, but I will take this opportunity of paying this tribute that I have read a good deal about your record, and it has always been of the highest standard; so my question is without prejudice to you. During the period of your incumbency of that office, it was a period of inflation, a period of abnormal activity and gradual expansion and inflation in every line of business including particularly banking and finance. But the three years showing these failures have been a period of deflation. Now, was the scarcity of failures in that period of inflation, and the large number of failures during the period of deflation due partially, we will say at least, to those reasons as well as possibly to the system of examination?—A. I think you might put that even a little more plainly. I am very glad you asked that question. It is a fundamental question. I will say at the beginning that it is my confident belief that if the policies which were in vogue at the time when President Wilson was President, and Secretary McAdoo was Secretary of the Treasury had continued, and if Mr. McAdoo had remained at the head of the Treasury, there would not have been in the United States that period of drastic and artificial and unnecessary deflation which came about. As a matter of fact, I prepared after a good deal of care a chart showing the tragedy of artificial deflation, and I have shown how the tumble in prices and the drastic deflation which took place was contemporaneous with the change of policy on the part of the Federal Reserve authorities of the United States in restricting credit in calling in loans; and that as the withdrawal of credit proceeded and the lack of loans and of Federal Reserve notes was felt prices came down, *pari passu* with the curtailment of credit. If Mr. McAdoo had been at the head of the Treasury during that period from the spring of 1920 up to the spring of 1921, in my judgment that deflation would have been nothing like as drastic or as cruel or as heartless as it was. I was a member of the Reserve Board during that period, and I remonstrated and expostulated against the policies which were in force, against the restriction of credits which seemed to me to be proceeding in an unreasonable and extreme manner. I do not have to say now all that I said, but this was said: I filed my written remonstrance with the Federal Reserve Board in the summer of 1920, in the autumn of 1920 and in the winter of 1920, and all through those months when prices were tumbling and the commercial and financial world was shaking, urging that there should be a relaxation of the policies which were in force.

*By Mr. W. F. Maclean:*

Q. Who enforced those policies?—A. Instead of the former Government or Federal Reserve policy, a policy of contraction was being carried on unreasonably. When I remonstrated with the Chairman of the Board his answer was that it was a case of a balloon being inflated by hot air; it was



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up in the air, and he said it was a case of puncturing the balloon. "That is what is being done," he said, "we are puncturing the balloon." My reply was that when a balloon was in the air and carrying passengers, the way to bring it down was by an intelligent use of valves and ballast and not by puncturing it.

Some hon. MEMBERS: Hear, hear.

WITNESS: In my judgment that was exactly what was being done; it was being punctured instead of being brought down in the proper manner. If Mr. McAdoo had been at the helm when I filed my remonstrance, a different policy would have been adopted in my judgment. I believe that if Mr. McAdoo had been there at that time he would have saved our country many billions of dollars and thousands of human lives, the lives of men who were destroyed and ruined and who took their own lives and committed suicide because they saw everything swept from them in those days by what I describe as ruthless and heartless deflation.

Q. I think you referred to 1923 as the date?—A. It should be 1920. The views which I have expressed publicly and privately with regard to the drastic deflation policies which were exercised by the Federal Reserve authorities in the United States, are I believe, corroborated and concurred in to a large extent by men whose opinion on financial subjects you all respect, men like Reginald McKenna, formerly Chancellor of the Exchequer; Professor Irving Fisher of New Haven and plenty of other men of that type whom I have quoted in my published statements in that respect.

Q. You will admit, however, Mr. Williams, that there are two schools of thought on that subject?—A. I do not think there are two schools of thought on the question of puncturing a balloon.

Q. I agree with you there. I scarcely think, however, that it would be fair to assume that that was the considered opinion of the Chairman of the Board. I do not know the gentleman, but I fancy he was using a figure of speech which was perhaps unfortunate and with which nobody would agree.—A. I will give you an illustration. During the time I was trying to have deflation brought about in an orderly way, I read in a New York newspaper which I picked up on one occasion that two bills were under consideration by certain permanent officials having to do with the administration of our finances, one of which was whether it would not be better to put on still more pressure, to create casualties and kill the wounded so that the limbs and bodies would not litter the way for others. That was one proposition which apparently was fully advanced by some financier at that time. I think I brought that out in my testimony before the Agricultural Committee at Washington. It was a suggestion which I cannot see how any sane man could make.

Q. A very strong and clear opinion, and no one can understand that at all. But to come back to what I said a moment ago in regard to those failures, I think one might say that the scarcity of failures during the previous period of years was more or less due to the question of deflation and the condition of inflation. Let me add this one thought, and you will see what my question really is. No matter what system, no matter what perfect system of examination one may have, it does not necessarily follow that there will be no failures?—A. I think I may reply to that by making this statement: If you have a thorough audit system of examination no matter what possible influences may be at work, deflation or anything else, failures will be very much less with a good system of examination than without it.

Q. But even with that good system of examination we would still have a record of failures?—A. Even with the best system of examination, if a policy

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of deflation is enforced as it is possible to enforce it, banks and business houses and individuals can be ruined notwithstanding any examination that is possible.

Q. Well, take our own system in Canada, free from the arbitrary interference, we will say, of such a body as a Federal Reserve Board, the bank would not be inclined to deflate to their own ruin? The point which you now make would scarcely apply to the Canadian system?—A. Here is what happened when pressure was put on by certain authorities in the United States who, instead of extending credit, credit was drawn in, and some banks to save themselves had to call upon their customers, and there were many cases where banks did save their own skins, but their customers were ruined, and if there has been an intelligent handling of the credit situation or proper handling of the credit situation, both the banks and their customers could have been saved.

Q. Now, in your description of the system of examination you mentioned that very often you found it necessary to resuscitate banks, and that some banks would get into difficulties, and you succeeded in bringing them back into a healthy condition. Now, that condition was not known to the public?—A. As a rule, not.

Q. Would you advise—A. Right there, I do not want you to draw from that answer that we permitted a bank to continue in an insolvent condition. What we would do, if the bank was in a dangerous condition, would be to call upon the officers and directors quietly, without anybody knowing anything about it, to put up enough money to save the bank during the period it was to continue.

Q. I think I recall you using a figure of speech, that sometimes a bank was like a person drowning, even sinking three times, and being brought to the surface and resuscitated. The question I want to base upon that is, would you advise making public the facts contained in the reports of the examiners to the Comptroller of the Currency, the copy of which we have on file?—A. In volume II of the Comptroller's report there is published a statement showing the condition of every National Bank in the United States, as of the Autumn call, the September call. That, of course, does not go into its affairs in the same detail as the examiner does in his report. Of course, it would be in many cases fatal for the report submitted to the Comptroller of the Currency by the Examiner to be made public, because the depositors would say, "The bank is in a dangerous condition, perhaps it may be saved, but we do not know whether it will be saved or not, and we will not take any chances, but will draw out our money," and there would be a run of the bank. The Comptroller examines the conditions to see exactly what can be done. If it is possible, or we believe it is possible to save the bank, and if the shareholders or directors can and will put up enough to maintain its solvency, and if so, that is done at once, and nothing is said about it, the bank goes on in a clean and safe condition.

Q. Have you examined the monthly reports which the Canadian banks make?—A. I have not.

Q. Then we are clear that it would be inadvisable to make public the facts in the report given by the examiner to the Comptroller?—A. Certainly.

Q. And such a report should be kept in a confidential state, and the authorities to whom made, in your case, the Comptroller of the Currency—A. Yes, the report, of course, is filed in the proper office; if it is a governmental agency, it is filed in that office where it can be analyzed, and the necessary action taken to save the situation.

Q. And in the case of Canada adopting an inspection of your audit system including, in a sense, the examination, of Canadian banks, such reports—A. Should never be published in their entirety.

Q. Publication of them would seriously interfere with the efficiency of such an examination?—A. It might interfere with the redemption and saving of the banks. We will suppose a case where the report is submitted by the examiner,

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every word of which is true. It presents a dangerous condition of affairs. The Comptroller examines it, and they agree if things go along in that manner the bank will fail and they say, "We can save this, and save it now." They say, "We believe the shareholders and directors can be called to put to the bank's credit a certain amount, and if that amount is paid the bank will be paid in full." we say nothing about that and the bank is safe.

*By the Chairman:*

Q. Would that assessment not be widely known, and affect the credit of the institution.—A. That is never published. That is always a private matter. It is to the interest of the stockholders that nothing be said about it.

Q. Can you assess all the stockholders of an institution without the public knowing it?—A. Of course, there is that danger, but it is to the advantage of the stockholders not to say anything about it. They might get together and agree to put it up privately. That is often done without publicity.

*By Hon. Mr. Stevens:*

Q. In your experience, dealing with these banks heading for insolvency, using that term, where, as Comptroller of the Currency, you thought it was time to bring the officials to Washington and discuss the matter; what period of time might elapse before the banks might be restored?—A. It might be a week or a month or six weeks. It depends entirely upon the character and the management and the condition in which the bank finds itself.

Q. Some might run for six or eight or ten months?—A. Mr. Pole, you have had in your district banks that have been nursed along for six or eight months before they could be paid out in full, have you not?

MR. POLE: Yes, and those which had to be nursed for a year, Mr. Williams.

THE WITNESS: That critical condition does not continue.

*By Hon. Mr. Stevens:*

Q. It is minimized?—A. Yes.

Q. In your experience you find it is advisable to nurse institutions of this kind back to complete solvency rather than when you find them in a critical position to force them into insolvency?—A. Unless the situation is a hopeless one.

Q. Then, in most cases, the bank is in some measure with the capital impaired, and it would be advisable to nurse it rather than to close it up?—A. I will tell you of some cases we have had where we have nursed them back to solvency and strength. We found there were a number of cases where National Banks in the fervor of patriotism, during the war, loaded themselves up with Liberty Bonds. They bought more than prudence would commend. As you all know, Liberty Bonds went down to eighty or eighty-five cents on the dollar. I had a number of cases of that sort to deal with, and there were some cases where it was a very nice question to decide as to whether these banks were solvent. I took the position that if the bank would be solvent if our Government met its obligations and paid them in full, we could take a chance on that, and we would permit that bank to continue to carry these bonds at the par, or approximately at par, if we knew that within a limited period they would get back their money, and as a result of that I think we were 100 per cent successful, were we not, Mr. Pole?

MR. POLE: Yes.

THE WITNESS: And our judgment in the stability of the United States Government and its credit and in the Liberty Bonds eventually going back from 80 cents or 83 cents to a dollar, saved the banks, whereas, if we had said, "You must throw over your Liberty Bonds, and lose \$170,000 for every million

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dollars invested—and some of them had five or ten million dollars invested—the bank would have had to wind up.

*By Hon. Mr. Stevens:*

Q. Are there not some two thousand National Banks?—A. Eight thousand.

Q. And some twenty-three thousand State Banks?—A. Yes.

Q. There has been quite a number of National Banks in recent years turned from the National Bank status to that of the State status. Could you give an indication of the reason for that?—A. I think that with respect to the present administration of the National Banks I would rather not go into that in any detail. I can say, in a general way, that there is a prevalent notion that a State Bank in some respects has greater privileges, and perhaps not the same responsibility, a greater license than National Banks, or that the bankers may be permitted to have a little greater leeway with the State Banks than with the National Banks. At the same time, I call attention to the fact that the National Banks of the country are comparatively maintaining their prestige, while there has been a large increase in the failures of National Banks, and as I suggested that increase in the failures of National Banks, is due largely to the enforcement of the deflation politics which went into effect. Still, the proportion of National Banks which have been failures is very much less than the proportion of State Banks, and therefore, the National Banks are regarded as offering an element of greater safety than the State Banks, as far as I can observe. In some states, a State Bank is casually examined; in some states they are thoroughly examined. I am not reflecting on the bank when I say that some banks are so exceedingly democratic that they resent interference from the Government of any sort whatever.

Q. I think that in the last report of the Comptroller of the Currency, there is a discussion of the necessity for National Banks to extend or adopt the Branch Bank System in order to compete with the growing power and influence that the State Bank has in competition with them. Can you give us any light on that?—A. The problem of National Bank branches is a large one and very complicated. I have made a recommendation in my past reports for a limited extension of the branch franchise.

Q. I recall that. Now, is not the tendency for the extension of the Branch Banks System in connection with National Banks of the United States growing from year to year, and the experience in active business becomes more impellent as far as the need of it is concerned?—A. I do not think that in our country there is any necessity for the extension of the Branch Banking methods or System. I think that in some cases banks have found it advantageous to themselves and to their customers and stockholders to establish a branch here and there, but I do not believe that there is a likelihood of our adopting in the United States the Branch System on the scale on which it is operated in England and this country.

Q. No, I would not think so at all, but there is an evolutionary tendency that way?—A. Yes.

Q. One other question: This is a question which I asked Mr. Pole this morning, and I trust you will not take any offence at my repeating it to you. Having in mind that you have a system of banking made up of individual banks largely, which has been the growth of the century, and having in mind that we have an entirely different system in Canada composed of fourteen central banks with four or five thousand branches, do you think that the bank examination system carried on under the Comptroller of the Currency of the United States could be adopted to the Canadian system?—A. I think I answered that at the beginning of my testimony.

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Q. You did, in a general way, I recall, but would you mind answering that again? I do not want to press it if you do not wish to answer it.—A. I have no objection to expressing my opinion. I do believe that it would be entirely possible for the Canadian Government, if it saw fit to do so, to inaugurate a system of banking examination more or less analogous to the system which we have in the United States, which would be effective and efficient, notwithstanding the fact that your system differs so largely from ours, that you have fourteen or fifteen banks with some thirty-five hundred branches. As I stated before, it might be necessary in order to make that system of examination effective, for you to have some modification of your National Bank Act prescribing the methods of bookkeeping and the custody of securities, etc., for each branch which would enable your examiners to make a real and impartial and complete examination of these branches without making them contemporaneous with all the others.

Q. In other words, you would say that by extension of the present system of audit in Canada, so as to incorporate the other examination, it could be done? —A. If you want me to speak very plainly, if I were doing it, if I had the supervision of the banks of Canada, I should have my own Examining Board. I should not let the National Banks select their own examiners from year to year from a comparatively limited list.

Q. The point you make, of course, is a quite a sound one from your point of view. I cannot and am not going to enter into any argument, but I think if one could, in a few words, give the full effect of our present system of audit, you would see that a great deal of the work now covered by the State Examiners, or the examiners on the other side of the line, is already covered. That is the point I tried to make a moment ago.

Mr. MACLEAN: It is not covered; that is the trouble.

*By Hon. Mr. Stevens:*

Q. The point you have made, Mr. Williams, is that a State Examination, such as you have south of the line, could be applied to our system? That is really the impression I think the Committee has gathered from your answer. Whether that is exactly what you mean or not, I am not quite sure myself. There is this, however, in order that I may reduce my question to as narrow a confine as possible, if this very thorough audit system—and it ought to be borne in mind there are two independent auditors, neither one dependent upon the bank for his position—we have the inspection system; we have the reports, and it is generally agreed there might be an extension of that, and partially an adaptation of the exterior examination, but what this Committee is divided upon is that some seem to desire the full adaptation of the American system of examination, while others of us have a different opinion on that. We feel an extension of our system would be adequate. Would you care to add anything, in view of that observation?—A. Yes, I would be very glad to make this statement; that the system of National Bank examination in the United States has been so efficient and so satisfactory that the Clearing House Associations of a number of cities which had formerly maintained separate bureaus for the examination of their local banks decided to give up their local bureaus for the examination of the local banks, and accept the report of the National Bank examiners, instead of their own.

Q. I think that was under your administration. I have heard very, very widely that your administration was exceptionally able and complete. Let me ask this, however; the whole examination system and the administration of the Comptroller of the Currency's Department is subject to the personality, ability, and integrity of the individual who occupies that office. Is that not so?—A. That is true as to any office.

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Q. And that individual, in the case of the United States Comptroller of the Currency, may be changed at will by the Government in power?—A. Fortunately, as a rule, we have had able men in charge of that important bureau.

Q. I am not reflecting upon the individual at all, but that is the fact, in regard to that system, is it not?—A. That is not only the fact in the National Bank System; it applies to all government, from the President down.

Q. And to the change made in 1921, and the policy adopted, and the administration of that office you, partly, at least, ascribe the failures of the National Banks—the increased failures?—A. I hope you have not drawn from anything I have said any suggestion that in my judgment the large number of bank failures was due to any inefficiency on the part of the bank examiners.

Q. Change of policy?—A. Oh, I do not think that the failures were primarily and mainly due to the effect of deflation.

Q. And the change of policy—I think you used that term, yourself?—A. It was a policy of deflation which prevailed after Mr. McAdoo left the Treasury.

Q. Which is incident to the system? The change in personnel and the change of policy is incident to the system?—A. The change of policy is incident to any banking system; any banking system may thrive under one policy and languish under another. I should say in regard to the individual audit of banks—of course you know that many National Banks have not only periodical examinations, but have their own auditors in our country, as well as here, and those auditors make periodical examinations and are supposed to keep them up, and keep them in condition, to bring to the attention of the Board matters requiring connection, but unfortunately the audits which are made by the banks themselves of that condition has been wholly inadequate.

*By Mr. Ladner:*

Q. Mr. Williams, I want to ask some questions regarding double liability. You expressed some views that you would favour that. For what reason, do you think double liability should be applied to shareholders which in modern times is done so frequently?—A. The record of the Comptroller of the Currency's office. There has been many a bank saved from ruin by this double liability.

Q. From the point of view of the management of a bank in saving the institution, but from the point of view of the shareholder, and outside persons investing their capital. How about them?—A. I see your question, as you have asked it. My point of view is that it is better from the standpoint of the shareholder and also from the point of view of the depositors, and I will explain why, from the point of view of the stockholder. In the first place, the stockholder of a bank, when he realizes if the bank is mismanaged, he may be called upon to pay one hundred cents on the dollar on his investment, in addition to going without the dividend, is more apt to look carefully after the personnel of the management, and see that efficient and capable men are kept in charge of the bank. From the standpoint of the depositors, the depositors feel they have doubled the security, assuming the stock is subscribed to by men who have real money to invest, and not by men who borrow it, and, therefore, they are willing to make their deposits in the banks with smaller capital, than they might otherwise require.

Q. Why should not the same principle of additional liability be applied to other concerns—to Trust Companies?—A. It does apply in some cases to Trust Companies, as well as banks. I agree with you, it is a safer method both for trust companies, and other kinds of depositories.

Q. Then you would limit the double liability to where there were deposits?—A. Yes.

[Mr. J. Skelton Williams.]



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Q. Well, take railroad corporations—A. The railways are not entrusted with the custody of the funds of depositors of a banking community, or the mercantile world.

Q. Then it is chiefly for institutions accepting deposits?—A. They are entitled to additional security.

Q. To the additional security of double liability?—A. Yes. When a bank accepts the funds of the public in deposit, and uses them in their own business—

Q. Do you find by actual experience in cases of failures that the double liability is collected in the United States?—A. You could always count upon a portion of it being paid. In some cases we were unable to collect one hundred per cent; in other cases, the collections were very satisfactory.

Q. Have you any idea of the average?—A. However that may be, our experience has been that the payment on account of these double liabilities have been a great protection to depositors.

Q. And do you find that this double liability is a deterrent to investments in banking institutions?—A. It did not seem so, when I was Comptroller, the rates that the banks were being chartered. I think the country was well supplied during those seven years with National Banks, notwithstanding the fact that there was double liability.

*By Mr. Cahill:*

Q. Was the stock held widely or confined largely to the district of the bank's operations?—A. Of course, the stock of National Banks is largely held in the communities in which the bank is located.

*By Mr. Ladner:*

Q. Now, I would like to ask some questions regarding the question of protection to savings deposits. A proposal has been submitted to this Committee whereby, in addition to the present class of accounts, current accounts and savings accounts, a further class of accounts will be established in all chartered banks where the depositors would receive, say, less than the established rate of 3 per cent, 2-7 or 2-8 per cent, or whatever it may be. The idea being that such accounts in that special class up to \$3,000 would be protected by the establishment of an insurance fund contributed partly by the depositors and partly by the bank, much in the same way as we now have established bank circulation redemption funds in connection with bank notes. I would like to ask, if, in your opinion, a scheme of insurance of that kind would be advantageous to stabilize the confidence of the people in the smaller banks and to the protection of depositors?—A. I recommended in one of my reports several years ago the guaranteeing of deposits of \$5,000 and less, and presented my arguments.

Q. That is in one of your reports?—A. Yes.

Q. And you figured that the rate of insurance would be \$25 a million.—A. I was just looking for those figures. It was an inconceivably small amount. In other words, it was based upon the experience of previous years.

Q. Now, there are existing a number of systems by which there is a total guarantee of all deposits. I wish to draw the distinction between that scheme and the one where the deposits are limited to \$3,000 and under, that is, this special class of accounts which the depositor would select, because it would grant him protection?—A. I think it would be very unwise to guarantee all deposits of banks.

Q. What do you think would be wise?—A. \$5,000.

Q. \$5,000 and under?—A. Yes.

Q. Would you just develop that a little?

[Mr. J. Skelton Williams.]

The CHAIRMAN: Would you quote a portion of your report which contains that?

The WITNESS: Yes: "Full guarantee of bank deposits for \$25 per million of deposits."

### FULL GUARANTEE OF BANK DEPOSITS FOR \$25 PER MILLION OF DEPOSITS

During the past six years of stress and strain the losses to national bank depositors from failure have been reduced to such unprecedentedly low figures that an annual charge on all deposits of  $2\frac{1}{2}$  ten-thousandths of 1 per cent of deposits would have been more than sufficient to cover all such losses accruing to the depositors of our national banks for this period. It is believed that it would be preferable at the outset, as heretofore recommended, to begin with a guarantee of deposit balances of \$5,000 or less, and the guarantee plan can then be developed in accordance with the lessons of actual experience.

If the excellent record made by the national banks in the past six years in the matter of immunity from failure should be maintained the Government could meet all such losses arising from the guarantee of national bank deposits from 1 per cent of the annual profits which it will receive as a franchise tax from the operation of the Federal reserve banks, if we assume that these reserve banks in the future should only make one-half of the net earnings which they have made in the past twelve months.

No better way can be suggested for bringing into life and getting back into circulation the enormous amount of money which is now hidden and stored away and kept out of banks by timid and nervous owners. The guarantee of all deposits in national banks of \$5,000 and less would give complete security for their money to more than 19,000,000 depositors whose deposits in the national banks at this time are estimated at about six thousand million dollars. The remaining individual deposits in National Banks, about eight billion dollars, stand to the credit of depositors whose balances exceed \$5,000, and those larger depositors aggregate in number, according to the latest estimates, considerably less than 5 per cent of the total number of depositors.

My strong reason for that guarantee and for that limitation would be that it would take care of people whom it is most important to safeguard, the poor people who have their savings in banks; in many cases all they have in the world is in the bank; and when they put their money in and know that it is safe, it gives them a sense of security which they could not otherwise have.

Q. You think that a scheme like that is practicable in the United States and Canada?—A. I am not undertaking to advise you, but I see no reason why it should not be applied to Canada. I am convinced that it could be advantageously applied to the United States, but Congress did not agree with me.

Q. Is it not really a question of working out a rate of insurance, actuarially, on past experience?—A. You can work it out on past experience; you cannot say as to the future. My judgment is that it is a risk which could be properly taken with an efficient system of bank examination. I would not think of recommending anything of that sort unless it went along with a complete and comprehensive and thorough system of bank examination.

Q. To express the point of view of the depositor is of course very important. Now, from the point of view of the bank, I would draw your attention to what

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actually exists in Canada. In 1923, at 31st December, of the total deposits within about one half of one per cent calculations, 70 per cent of those deposits were in our four largest banks, and 30 per cent were in the remaining 10 banks; and owing to the failure of the Home Bank, I think, and perhaps other causes, it is said that there has been a great deal of shifting of deposits from the smaller institutions to the larger ones, so that the smaller institutions carrying overhead are faced with less deposits. Now, would such a proposal in your judgment stabilize the confidence of those people in the smaller institutions and enable them to remain in competition with the larger ones.—A. I think that can hardly be a matter of opinion; it is a matter of fact.

Q. Do you think that the fact that we have a branch banking system, a system of 14 banks with branches, instead of a unit system, would make any difference to the practicability of such a proposal?—A. What argument is there against it?

Q. I do not think there is any. I am favourable to the scheme, you understand.—A. I see no objection to it.

Q. In your proposal Mr. Williams, do you propose that the depositors pay any portion of the premium for this insurance scheme?—A. No.

Q. You think that the bank should pay it all?—A. I suggest that that premium could be met by taking a small proportion of the surplus earnings of the Federal Reserve Banks.

Q. Since the establishment of the Federal Reserve Bank, we have learned that it earned \$135,000,000 of profits which went to the Government?—A. The profits have been very large.

Mr. POLE: \$136,000,000.

*By Mr. Ladner:*

Q. In your opinion, would the establishment of such a system of guarantee cause all the depositors to take advantage of it to the extent of \$5,000?—A. Why should they not, if it costs them nothing? It would be automatic. That means that if any depositor puts his money in a Canadian bank it is guaranteed up to \$5,000.

Q. Suppose that instead of receiving the full percentage of rate of interest, they only received a portion, say 2.8 per cent, and did actually contribute their proportion to the premium; do you not think that that would have the effect of causing the large institution and the people who understand the solvency of banks to allow their accounts to remain in the current accounts and current savings accounts as they do now and make it less difficult to apply the system?—A. I do not exactly catch the point of that question.

Q. If a person could get as high a rate of interest in this new class of savings accounts as they can under the present conditions they would naturally take advantage of it?—A. They would take the protection of the Government.

Q. But if the depositors had to pay a little bit for the poor man who wanted protection, he would not mind taking a little bit less?—A. My point is that I would take care of the poor man. If I can do it without paying extra I would do it.

Q. The result would be that you would have everybody, poor and all alike, people who do understand the solvency of banks and others who do not, all taking advantage of this account and perhaps embarrassing the operation of the banks?—A. I do not see how it could embarrass the operation of the banks if there was a Government guarantee. How would it embarrass the operation of the banks?

[Mr. J. Skelton Williams.]



Q. Your proposal is that the Government guarantee it, but my proposal does not mean that the Government is behind it. To what extent do they guarantee it?—A. Full \$5,000.

*By Mr. W. F. Maclean:*

Q. That is in National Banks?—A. National Banks.

*By Mr. Ladner:*

Q. Does everybody take advantage of it?—A. Yes.

Q. You have gone into this scheme and made a study of it—

*By Mr. Cahill:*

Q. The Government of the United States is making a profit from the operation of the Reserve Bank which you might use as an insurance fee. That would be the difference?—A. Of course the Government of the United States makes a double profit out of the National Banks. They have a certain tax on circulation and in addition the Federal Reserve Banks themselves make a profit in which the Government participates, so that if you put it on a plainly business basis, the premium which you might pay might come indirectly out of the National Banks' profits which have gone to the Government.

*By Mr. Ladner:*

Q. In short the scheme aims primarily to safeguard— —A. The small depositor.

Q. Who does not know anything about one institution or another?—A. It does.

*By Hon. Mr. Stevens:*

Q. Would not that have a tendency to take deposits from the State Banks to the National Banks?

Mr. W. F. MACLEAN: Who cares?

WITNESS: Yes, it would have a tendency to make the State Banks nationalize and stop the exodus from the system at once, I think.

Mr. LADNER: There are those who say that there are two schools of thought—

Mr. SHAW: I would like to suggest that it would be very valuable to the Committee if ample time were available to Mr. Williams to give us a bird's eye view of the Federal Reserve System and the reasons for calling it into being.

WITNESS: I would be glad to do that if time permits.

The CHAIRMAN: I would suggest that members rush their questions because we have barely an hour left.

*By Mr. Ladner:*

Q. There is a question of the Government opening savings offices to receive deposits of the people on which they pay a rate of interest from 3 to 4 per cent in competition with the banks?—A. In this country?

Q. Yes. Assuming such a thing to exist, do you think that that is in the interests of the public or our commercial institutions, or do you think that the banks should receive the deposits under proper supervision and give service to the industrial and commercial communities?—A. We covered that question in our country by a postal savings system in which the post office in almost any place may accept the deposits of the local people.

*By Mr. W. F. Maclean:*

Q. And marked cheques?—A. No, certificates of deposit, bearing I think 2 percent or 2½ per cent. Perhaps Mr. Pole could tell you definitely.

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Mr. POLE: Two and a half per cent at least.

WITNESS: When that money is withdrawn from circulation by the industrial worker and put into the post office, the post office deposits it in a National Bank so that it may not be capital locked up and keeps it on its way. The National Bank receiving it gives security, deposits with the Treasury of the United States security to cover the deposit in that particular bank.

*By Mr. W. F. Maclean:*

Q. How does he get the money out?—A. It is made very easily convertible, I think there is some provision that after a certain period he can convert it into Government bonds bearing 3 per cent or certificates bearing 3 per cent. I do not know to what extent these regulations may have been changed or modified in the last year or so. But the main principle is as I have said. Any individual may deposit money in a post office at 2½ per cent, and the postmaster deposits in some National Bank, which bank limits the rate of interest I think, 2½ per cent to the postmaster and gives security for it.

*By Mr. Ladner:*

Q. Last year we were interested in and I had occasion to file a proposal in connection with a Federal Reserve Bank or Central Bank of rediscount in Canada. I propose to ask you for your ideas upon this, but before doing so, perhaps I should draw your attention to the conditions in Canada under our branch bank system and under our Finance Act. Are you familiar with our Finance Act?—A. No, I am not.

Q. It provides facilities for rediscount on putting up securities—

The CHAIRMAN: I would like to draw your attention, Mr. Ladner, to the fact that two other members have expressed a desire to ask questions.

Mr. LADNER: I am asking him now to make a statement based upon the conditions as we have them in Canada.

The CHAIRMAN: So far as I am concerned, it would be quite agreeable to me to have that statement, but I think it would be rather unfair to the two other members who wish to put a few questions. I would suggest that this matter be left over and included in the statement which Mr. Williams will make at the suggestion of Mr. Shaw. I would like, if possible, to give an opportunity to the other hon. members who desire to put questions to do so now, if it is agreeable to the Committee.

*By Mr. McMaster:*

Q. Mr. Williams, would you inform the Committee whether the leading National Banks of the United States are glad to co-operate with your system of examination, or whether they have accepted this system with a wry face?—A. Both. When the system was in the making a great many of the larger and more important banks antagonized it. They were opposed to it; they derided it, and belittled it in every possible way, and there were those who doubted the efficacy of the Act, and the possibility of making a success of it. However, when the Federal Reserve Act was passed by Congress, and the machinery was set in motion, and when the banks began to function, I should say that 95 per cent of its enemies were won over to the system. I think if there should be a poll to-day of the National Banks of the United States, that not less than 95 per cent of them would be in favour of the system.

*By Mr. Maclean:*

Q. Is it imperative? Do they have to submit to it?—A. When the system was put into effect, the suggestion was made that some of the National Banks

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would never accept it; they would go out of the system, and it was made compulsory if the National Banks were to continue as National Banks, they must join the system. They can refuse to join if they wish. Some said there would be a general exodus from the system, banks which would withdraw from the National Bank System and accept State Bank charters. When the system went into effect there were few, if any withdrawals. They all accepted it, and I think the vast majority of the National Banks of the country regard it as a wonderful measure, and one which they would not do without, if they could help it.

*By Mr. McMaster:*

Q. As I recollect, there was very great opposition at the beginning, and the Government really had to impose it on the banks?—A. The Government made it a condition of maintaining their charter that they should join the system, and very few, if any, gave up the charter, and I think they are glad they did not.

Q. Am I right in gathering from your remarks that the Comptroller of the Currency, when a bank is in a precarious condition, has a right prior to its insolvency to call upon the shareholders to make good any deficiencies in the capital of the bank?—A. You mean before the failure of the bank?

Q. Yes?—A. Yes, I do not want to be misconstrued or misunderstood in regard to my criticism of the policy of the Federal Reserve System. I think the Federal Reserve System is the greatest banking and currency system in vogue in any country to-day, but I have criticized its administration in certain respects. I think the Leviathan is a wonderful ship, but we can see it might lead to disaster if the Leviathan should be placed in charge of a captain and a crew who were not sufficiently posted and sufficiently capable of directing it in a tempest. It is a question of the administration of the Federal Reserve System, and not of the System itself. I think, as I have indicated to you, that if the Federal Reserve System had had the benefit of advice and guidance at a very critical time in the history of our country, of Mr. McAdoo and as I have said, President Wilson, Secretary Glass, and Senator Owens, who were largely responsible for the creation of that system—if they could have remained there, and Mr. McAdoo had remained as Chairman of the Board, he would have foreseen the dangers of pursuing too far the policy of restricted credit, and the economic and financial history of our country and of the world in the past three or four years would have been very different. Now, of course, it is important for any great piece of machinery or any great law to be administered properly, that it be done as efficiently as possible. We are all human, and errors will occur in the management of any body of men, or any piece of machinery. The main thing is to make it as "bomb-proof" as possible. I wanted to make that statement as my opinion of the Federal Reserve Act. I would say right here that, as Comptroller of the Currency, it was my duty under the Federal Reserve Act, and as a member of the Organization Committee, in conjunction with the Secretary of the Treasury and the Secretary of Agriculture, to divide the United States up into the twelve Federal Districts. That was a duty which was imposed upon those three officials. Those three public officials established the Federal Reserve districts, and the twelve Federal Reserve cities, and the charter of each one of the Federal Reserve Banks was signed by me as the Comptroller of the Currency, so I have every reason to feel kindly towards and believe in the Act, and to resent any possible mismanagement of the System, or errors that may creep up, as they will do, in any proposition. If you would like me to do so I shall be glad to read from my annual report of 1914, as Comptroller of the Currency.

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The CHAIRMAN: You might allow Mr. Good to put a few questions first.

Mr. GOOD: I think in view of the rapid passage of the time, I shall take my chance of asking Mr. Williams a few questions after he has made his statement regarding the Federal Reserve System. May I, before he begins, however, point out what I would like to have him give us in that connection, not a detailed statement of the constitution and operation of the system, but a bird's-eye view of the situation that the United States faced financially prior to the establishment of the system; the weaknesses that existed then; an outline of the main features of the system; something as to the remedies effected by the system after it once was put into operation, especially with reference to the safety of depositors. Mr. Williams has put before this Committee the relevancy of this question of the establishment of a Central Bank to the question of the safety of depositors. I would like him also to deal with the question of the establishment of a Federal Reserve or a Central Bank re-discounting and reserve in relation to the safety of depositors. I should like Mr. Williams to deal with the possibilities that lie in a bank to stabilize the price level and prevent these terrible disasters to which he has referred. I think he has stated to Mr. Stevens that the disasters which have overtaken the United States banks in the last few years have been due—

The WITNESS: To a large extent.

Mr. GOOD: —to the ruthless, and too rapid deflationary policies that were begun in 1920. Mr. Chairman, if Mr. Williams would give us from his point of view a bird's-eye view of the Federal Reserve System, and possibly in conclusion—if he has considered the matter—his views as to the adaptation of the principle, under the United States System of a Central Bank of Canadian conditions, I shall be glad to have his opinion on that.

The WITNESS: I think in my annual report as Comptroller of Currency for 1914 (EXHIBIT No. 9) I gave what might be regarded as a bird's-eye view of the situation, and I shall be glad while reading it to be interrupted at any point if anyone wishes to ask a question on any of the points covered.

The Federal Reserve Act, approved by President Wilson on December 23, 1913, is designed not only to cure weaknesses and defects of the currency system under which we have struggled, and sometimes staggered, in the past, as we have outgrown the conditions and passed beyond the circumstances which it was especially provided to meet, but to offer to the people of this country many new advantages and opportunities, while emancipating business from many evils, difficulties, and troubles with which it has been burdened and from which it has found no escape.

Among the principal direct benefits which the new Act confers are these:—

First, it supplies a circulating medium absolutely safe, which will command its face value in all parts of the country, and which is sufficiently elastic to meet readily the periodical demands for additional currency, incident to the movement of the crops, also responding promptly to increased industrial or commercial activity, while retiring from use automatically when the legitimate demands for it have ceased. Under the operation of this law such financial and commercial crises, or "panics," as this country experienced in 1873, in 1893, and again in 1907, with their attendant misfortunes and prostrations, seem to be mathematically impossible.

Second, it provides effectually and scientifically for the mobilization of bank reserves in the twelve Federal reserve districts, where these funds are not only available for the member banks of each respective district, but, under wise and well-guarded provisions of the law, the

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surplus moneys of any one district become available for the legitimate needs of any other districts which may require them.

Third, it eliminates the indirect tax of many millions of dollars annually upon the commerce and industry of the country, heretofore imposed in the shape of collection or "exchange" charges on checks, and inaugurates a system of clearances by which it is expected that every check or draft on any member bank in any one of the twelve Federal reserve districts can be collected ultimately free of the exchange charges heretofore exacted and may be charged on the books of the Federal reserve bank to the account of the bank upon which drawn, in most cases, within twenty-four hours or less after it is deposited with a member bank. This provision renders available many hundreds of millions of dollars heretofore carried in transit in the mails in expensive and tedious processes of collection, sometimes absolutely useless during weeks when much needed, held in transit moving from point to point.

Fourth, it furnishes a discount system by which every well-managed member bank may have the opportunity of converting into money by rediscounting, to such extent as may be necessary or desirable, all commercial paper having not more than three months to run which it may have taken in the ordinary course of its business. The new law removes, so far as borrowing money from a Federal reserve bank is concerned, the limitation which prevented a national bank from borrowing an amount in excess of 100 per cent of its capital. The significance of this release may be appreciated when it is realized that some national banks have deposits amounting to ten times their capital or more. The ability to borrow only an amount equal to capital would be wholly insufficient, in many cases, to enable banks to meet the demands which arise from unexpected runs, or in financial crisis, or other extraordinary demands.

It removes from prosperous and well-managed banks penalties hitherto imposed on their very prosperity and success.

It relieves the well-managed bank from the limitations of original capital invested and gives it the legitimate advantages of its own enterprise and the business it has built up and actually does.

Fifth, by making it possible for any well-managed bank to convert its assets readily into cash to meet unexpected contingencies or runs, the necessity for the larger reserves heretofore required ceases. It is estimated that by this reduction in the reserve requirements alone more than four hundred millions of dollars of money or credits heretofore held in reserves and inert, will become available for commercial purposes and the legitimate demands of business.

Sixth, the new law also makes it possible for national banks to lend money on improved, unencumbered farm property, thus enabling farmers, the most numerous and in many respects most important portion of our population to participate directly in the beneficent provisions of the new law.

Seventh, the new law provides that national banks may establish branches in foreign countries, these branches to be under the jurisdiction and subject to the rules, regulations, and examinations of the comptroller's office. These branch banks should be material aids in building up our foreign commerce.

Eighth, the former system of paying national bank examiners by fee is abolished; and the examinations of all member banks, both National and State, are now placed upon a basis which necessarily will insure a thoroughness and efficiency hitherto impossible.



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Under the provisions of the new law the failure of efficiently and honestly managed banks is practically impossible and a closer watch can be kept on member banks. Opportunities for a more thorough and complete examination are furnished for each particular bank. These facts should reduce the dangers from dishonest and incompetent management to a minimum. It is hoped that national bank failures can hereafter be virtually eliminated.

Ninth, the establishment of a system of bank acceptances and an open market for commercial paper, which, it is believed, will aid and facilitate this country in obtaining a larger share of international trade and of the world's commerce."

Those are the 9 points and advantages which are obtained from the institution of the Federal Reserve System as they impress me at the time.

*By Mr. McMaster:*

Q. Sir, would you just tell us how you established these banks? Just realize that some of us at least know practically nothing about the matter, and disclose to us the system and how it operates, especially to secure depositors?—A. You mean the Federal Reserve System?

Q. The whole thing?—A. Would you like me to discuss the National Banking System as it existed prior to the Federal Reserve System? Prior to the Federal Reserve law being passed, our national banking system was based upon a war measure passed about 1864 under which a class of banks was provided for which could issue currency on the security of Government bonds. The only basis upon which they could issue security was Government bonds. A tax was imposed at the same time on such banks which prevented State banks from issuing any currency, practically. I think it was a tax of 10 per cent or 15 per cent, was it not, Mr. Pole?

Mr. POLE: 10 per cent, I think.

The WITNESS: It was a prohibitive tax on currency, so the only banks which issued currency after the inauguration of the national banking system were the national banks. At the close of the war there were about three million dollars of bonds outstanding, and it was the basis for the currency which the national banks desired to issue at that time. Since the war the public debt had been almost paid off, reduced to about one billion dollars, about the year 1912 or 1913, so the opportunity for issuing currency on Government bonds was passing away, and there was no elastic currency, no way of supplementing the country's supply of money so as to keep pace with the growth of the country and the increase in business, in commercial and industrial enterprises. As a matter of fact, a national bank with a million dollars of capital, and entitled to issue a million dollars of notes would really not increase the money in circulation by issuing those notes. They would have to take one million dollars of their funds and buy one million dollars of Government bonds; when they bought a million dollars of Government bonds, they would only have a million dollars of national bank notes which they would have to put out in some way or other and besides that they would have to put up a 5 per cent redemption fund. So as a matter of fact the actual money in circulation was reduced instead of being increased. That 5 per cent redemption fund was kept there and as national bank notes were sent in from one bank to another to be paid off they were paid by the Treasurer of the United States, and he would charge them up; he would pay them from the national redemption fund and notify the bank that the fund had been charged so much and ask them to make it good. As you can see, there was nothing elastic about that system, and with the exhaustion of the Government bonds the basis on which currency could be issued was constantly

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diminished. So, in 1913, when the country was in some respects 2 or 3 times as large as it was in 1864 there was only one third as many Government bonds out available as a basis for currency as compared with 50 years before. We had periodical panics every year. When the time came for moving the crops the question was asked, "Where is the money coming from?" Under the old system of reserves, the country banks kept their so-called reserves—perhaps I had better be a little more explicit there. I think there were some 47 cities, the large cities of the country, whose national banks were called Reserve Banks, and those cities were called Reserve Cities. There were 3 of the larger cities, New York, Chicago, and St. Louis which were known as Central Reserve Cities. A bank in a town of 10,000 or 15,000, or 30,000 population would keep a proportion of its reserve money in the reserve cities, one of the 47 cities; the smaller reserve banks were required to keep a portion of their money in the 3 big cities, New York, Chicago and St. Louis. What happened was this. When the country banks needed money and called on their reserves in the reserve city, the reserve city would call on New York, and New York at the same time might have a very active demand for funds and might not know where to get the money, and as you know, in the past 30 or 40 years there have been several money panics when the banks were all solvent but did not have the currency to meet the demand. The purpose and one object of the Federal Reserve Act was to get away from that. A little bank would send a thousand dollars to the big one, and that was sent to New York and counted 2 or 3 times in the process, creating a fictitious balance, and it was wholly inadequate to meet the demands. As a result of that system we had these frequent panics and almost every summer when crop moving time came along, there was a tightness in the market. As I have stated, the 12 Federal Reserve cities were designated by this Committee composed of the Treasurer, the Secretary of Agriculture and the Comptroller of Currency; New York, San Francisco, and several in the south and others in the middle west. It was provided that each of the national banks should subscribe to the capital stock of the reserve bank of its district, should subscribe 6 per cent of the stock, and that they should pay up 3 per cent. I think that was it, was it not, Mr. Pole? Six per cent the original subscription?

Mr. POLE: Six per cent, yes.

The WITNESS: They paid 3 per cent in cash, and are still liable for the remaining 3 per cent. As the capital of the banks at that time was about one billion dollars, that provided for an initial capital of about sixty million dollars for the Federal Reserve banks, and the average capital was about four or five million dollars. Now, the banks had that initial fund of sixty or seventy million dollars to start with; it is now something over one hundred million, and then they said to the reserve banks, "You must keep your reserve entirely with the Federal Reserve Banks; instead of keeping it in the reserve cities or New York, put it all in your own reserve bank." In that way there has been built up a reserve of these banks—perhaps I should say that the provision was that in the so-called country banks they must keep 7 per cent of their deposits in reserve, 7 per cent of their demand deposits and 3 per cent of their time deposits. The reserve cities must keep in their bank 10 per cent of their deposits, and the central reserve city banks of which there are three, New York, Chicago and St. Louis, must keep in the reserve bank 12 per cent of their deposits in cash. These reserves had to be paid in in gold, or the equivalent of gold. Naturally, the twelve Federal Reserve Banks have been able to accumulate in addition to their capital of sixty-two million, a reserve balance of a thousand million, or twelve hundred million, all gold, and it is upon this basis that they have been extending accommodation to the member banks, of the country. It at one time amounted to as much as three million dollars altogether.

[Mr. J. Skelton Williams.]

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*By Mr. McMaster:*

Q. May I interject a question. Do the reserve banks loan to anybody but banks?—A. The reserve banks can only loan to the member banks of their own district, except that there are certain provisions in which they can buy in the open market bankers' acceptances or trade acceptances of a long time character. Their only dealings are with their own banks. The twelve reserve banks can also loan to other reserve banks which may need the money to accommodate their customers. There is a provision in the law which makes it possible for any Federal Reserve bank to be required to loan to another bank if they should be slow about granting the accommodation which some bank might need. So, if the bank in New York says, "We will keep all our money here," the Reserve Board can say, "No, loan San Francisco fifty million dollars" and they have to do it. So the twelve banks are all piped together as it were. If the funds in one bank are low, they can open the valve and let the money flow in from another, so it is possible to keep them all at the same ratio if it is desirable to do so. However, the reserves range from sixty-three million up to seventy or eighty or ninety million. If it were desirable, for any reason, to require them to keep the same reserve, that could be done.

*By Mr. Cahill:*

Q. Is the stock all owned by the member banks?—A. The stock is all owned by the member banks. There was a provision in the law, I believe, which authorized the Reserve Board to accept public subscriptions for such portion of the stock as might not be subscribed by the member banks, but it was never necessary to take advantage of that.

*By Mr. Good:*

Q. I hope Mr. Williams will not forget one or two of the points I mentioned, as to the possibilities of stabilizing the price level; as to the applicability of the principle of a central bank to Canadian conditions, and further as to the safety of depositors generally?—A. As to the safety of depositors generally, I will take that first. Under the provisions of the Federal Reserve Act any well managed, honestly managed, prudently administered bank can always convert its commercial paper, eligible paper into cash, as they never could before.

Q. Failures would be minimized?—A. Unquestionably. Therefore, there is no reason for a bank which is full of good paper closing its doors, because its reserve bank can take the paper off its hands. If it is filled up with rotten paper, and the bank has been dishonestly managed, and has become insolvent—

*By Mr. W. F. Maclean:*

Q. And has not been properly inspected?—A. Yes; there is no provision for the reserve bank making good an actual deficit and giving good money for rotten paper, but if the bank has been prudently managed, if it has observed the limitation of loans, and has not loaned more than it is authorized to loan, it is not likely that the assets will be destroyed or wiped out all of a sudden.

Q. So the discounting could be closely linked up with the inspection service?—A. Undoubtedly.

*By the Chairman:*

Q. Any definition in the Act as to what is discountable paper?—A. Yes, it is clearly defined. I will leave with you the clearly defined instructions on that. They know whether it is eligible or not; there are safeguards there; the paper issued for agricultural, commercial or business purposes may be discounted, but paper issued for investment and speculative purposes is not subject to discount.



*By Mr. Good:*

Q. As to the possibility of stabilizing the price level to a justifiable interest rate?—A. That is a matter that I think should be given every consideration and should be gone into very cautiously. I do not think the Federal Reserve Board ought to tamper with prices too far. I think they should adhere closely to the functions of banking. I think it was wrong for the Federal Reserve Board, if they did it deliberately, to undertake to bring prices down by calling in credits; I think that was an unjustifiable act.

*By Mr. McMaster:*

Q. That was the effect of calling in the credits?—A. If that was their purpose, it was not justifiable. The prices at one time were too high, but it was obvious to any economist or business man that they were not always going to remain on that basis. Would it not have been much better for the country to have gone slow and permit the individual and the consumer to use up the high-cost stuff as they went along and reduce the cost by degrees, so there would not have been the decline that there was?

*By Mr. Good:*

Q. The point I raised is this. Mr. Williams has stated very definitely that in his judgment the mismanagement of the system led to very serious consequences indeed.—A. Instead of "mismanagement" I think I would rather you would use the term "ill-advised policy" they followed. The result of it was mismanagement, but I should not care to go so far as to say there was anything deliberate about it. I think they followed the policy of drastic deflation entirely too far.

Q. If the policy was ill-advised or ill-conceived, then I raise the question as to the possibility of utilizing this system to carry out a policy which is well-advised and well-conceived, conducive to the general welfare in the matter of preventing inflation or deflation.—A. That is a very large question and must be considered in its broader aspects, as to how far the banking system must undertake to interfere with prices. It is a large question.

*By Mr. McMaster:*

Q. Under the present organization of credit, is not banking bound to interfere with the price level?—A. I think it would be wrong for the Federal Reserve System to reduce discount rates to an absurdly low price, because everybody would run in and borrow money and then up would go the prices again.

*By Mr. Good:*

Q. Which would lead to inflation?—A. Which would lead to inflation, and I think it would be equally wrong and perhaps a little worse if they bring things down to a little less than their real value.

Q. Without pressing this matter further, I should like to have your views as to the applicability of this principle to Canada. I may say that in Canada we have had established, I think, a little over 10 years now, central gold reserves where the banks may deposit either gold or Dominion notes and get permission to print their own notes in substitution thereof, and we have also—

Mr. GARLAND: Not in substitution thereof. Is there not some proportion?

*By Mr. Good:*

Q. No, I think it is dollar for dollar. Then in 1914 we have the War Finance Act which gives the rediscount privilege to banks. That was a war measure and it has been on the Statute Books ever since.

Mr. SHAW: I think you should point out that this is under the control of a Board.

[Mr. J. Skelton Williams.]



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*By Mr. Good:*

Q. Yes, the central gold reserve is under three trustees, two appointed by the Canadian banks and one by the Government. The administration of the War Finance Act is ostensibly under the Minister of Finance but really under the Treasury Board. Now, there was a proposition which was discussed somewhat this morning and has been discussed at other times for the creation of a central bureau, or supervisor, or superintendent, some person or committee under the Department of Finance which should co-ordinate these various activities that are now carried on separately; that is, the administration of rediscounting, administration of any kind of Government inspection which might be adopted henceforth, and the administration of the reserves which, as you know, furnish a certain amount of elasticity to our currency. I should like to have your opinion on this; it was asked of Mr. Pole this morning, as to the advisability of co-ordinating these various activities, as well as the establishment in Canada of something like the central reserve bank in the United States.—A. I think I can answer that in this way, if you will permit me, by saying that I see nothing in your system of banking, or your Bank Acts, or your conditions in Canada, which would make it in any way impracticable to have such a system in Canada as we have in the United States. I cannot say that the way is entirely open, and that there is no reason why it should not be done, or it should be done, but I will say that I can see no reason why such a system as we have in the United States should not be very successful in Canada, and it is my belief that it is entirely practicable. I think the conditions here are in many respects similar to those in the United States. You have a wide section of country where conditions vary, from the Atlantic to the Pacific, and you could have, say four or five, Federal Reserve Banks between Montreal and Vancouver which could perform the same functions that our 12 Federal Reserve Banks perform in our 48 states.

Q. They would have knowledge of local conditions?—A. With a knowledge of local conditions. I cannot conceive of any reason why it should not be done.

Q. That organization, then, might undertake the rediscounting processes that are now carried on, inspection, and the reserves?—A. Certainly. You could have the same basis of currency, if you cared to do so, that we have. One thing I have not made clear to you is the way we issue currency. Mr. Jones comes to a member bank and says, "Here is fifty thousand dollars of commercial paper issued for business purposes, industrial purposes, and I want you to discount it." The First National Bank of Montreal says, "All right, we will take your paper. We are a little hard up but we will let you have the money if you want it." They take that paper to your reserve bank in Montreal and say, "Here is \$50,000 from Mr. Jones and \$50,000 from Mr. Smith, \$100,000 altogether. We want you to discount this for us." They say, "Very well, we will," and they give you a credit of \$100,000.—no, they give you the money. Then you take that paper and go to the Federal Reserve agent in the bank and say, "Here is \$100,000 of paper; we want you to give us \$100,000 of notes to make good the money we have just loaned." The Federal Reserve agent says "All right; You have got 40 per cent of gold against these notes?" You say you have, and he says, "Here is \$100,000 of Federal Reserve notes of Canada," and he hands you \$100,000 of Federal Reserve notes of Canada, backed by 40 per cent of gold, and \$100,000 worth of paper, and I think the notes here would be as good as in the United States.

*By Mr. Benoit:*

Q. Do you consider your banking system the best in the world?—A. It meets our situation all right. I do not think we would be willing to exchange it for any other.

[Mr. J. Skelton Williams.]

*By Mr. W. F. Maclean:*

Q. I wish to ask if there is any provision in the American banking law which would prevent the directors of a bank from loaning the great bulk of their capital to two or three individuals?—A. Yes, indeed. There are all sorts of restrictions which prevent anything of the sort. The member bank is limited in the amount that they can loan to any one individual. They can only get so much paper; they can only loan so much, based upon say 10 per cent of their capital to any one individual, whoever it may be. They can only loan so much, and if they can only have so much of one man's paper the Federal Reserve bank can only loan proportionately.

*By Mr. McMaster:*

Q. Do you consider that a wholesome provision?—A. If one man should go to two or three banks and try to get paper discounted, the Federal Reserve banks would have tab on him. The Federal Reserve Banks are kept informed of the condition of the banks; the examiners file reports with them, and in addition to the reports of the Comptroller of Currency, they have the power to send their own inspectors to any bank to see how things are going. I have never heard of any abuse of that sort.

*By Mr. Cahill:*

Q. Do you think the American system is a more useful system to the public than our system?—A. It meets our situation.

Q. You would not like to try our system?—A. I would not.

The CHAIRMAN: Gentlemen, we have only a few moments before Mr. Williams must go, therefore I would ask him if he has anything to say which he has possibly overlooked so far.

The WITNESS: With your permission I will take the liberty of sending you certain documents which may have a bearing on what I have had the pleasure of stating to you to-day, including that chart about which I have been telling you, and also some circular letters and statements which have been published from time to time in connection with the deflation period. I will leave with you a copy of the Comptroller's report for 1920 (EXHIBIT No. 8), also a copy of the report from which I read in regard to the Federal Reserve, the report for 1914 (EXHIBIT No. 9); and I will unload upon you my report for the last six or seven years (EXHIBITS Nos. 10 and 11). I will also leave to the members or to your secretary a digest of the report submitted by the National Banks from time to time (EXHIBIT No. 12). Then, here is the form of application for rediscount which is filed by a member bank for a Federal Reserve Bank (EXHIBIT No. 13); a copy of the Federal Reserve Act itself (EXHIBIT No. 6); and here is ammunition on our file, different kinds of forms and schedules (EXHIBIT No. 15). Here is the form of examiner's report on the conditions (EXHIBIT No. 14). You will notice two or three yellow leaves there. They represent a confidential report. It was so confidential that it was handled separately. Then, here is a copy of the digest made by the statistical department of the Comptroller's office (EXHIBIT No. 41). This shows how the reports from the 8,000 banks are digested as they come in. There are other forms which I will leave with you, and which your secretary may care to look over, material which is used in one way or another (EXHIBIT No. 15).

Mr. LADNER: I think these forms should be all placed in our report.

The CHAIRMAN: I may say that I have gone through some of these forms with the Clerk, and I will make a report to the Committee as to the advisability of having them printed.

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WITNESS: In this report for 1919 there are three charts in which I think I may take some pride and satisfaction, showing the reduction of bank failures, the amount of profits and so forth.

Now, I think I have done. I want to thank you all for your patience in hearing me deliver myself on what is rather a dry and technical subject. I am very glad to have had the opportunity of being with you.

The CHAIRMAN: I am sorry that words fail me to express adequately the sentiment of the Committee, the sentiment of gratitude to the Hon. Mr. Williams who has been kind enough to accept our invitation and offer the most valuable information which he has given to this Committee. I am sure that this opportunity of meeting him and of getting into closer contact with him will contribute largely to increase the cordial sentiment of con-fraternity which already exists and the sentiment of goodwill that exists between Canada and the United States.

Hon. Mr. Williams: In thanking you, Mr. Chairman and gentlemen, let me emphasize the goodwill and high feeling which we entertain in the States towards Canada, and which has been doubly cemented and increased by your wonderful record in the Great War. I think that the record which Canada made in sacrifice of treasure and men is incomparable. None of the allies did more than Canada did. I happened to be in Washington during the whole period of the War and was in close touch with Canada in many ways, and I realize more fully than you may imagine the magnificent record which you made for yourselves. I am very glad to have this opportunity of paying a tribute even in small way to the welfare of Canada, to the work which you have in hand in endeavouring to forward the interests of a people who are connected with us by ties of blood as you are.

The Committee adjourned.

## HOUSE OF COMMONS,

COMMITTEE ROOM 429,

TUESDAY, May 27th, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Vien, presiding.

The CHAIRMAN: The first order of business is "communications." I have received a letter from the Organization of Home Bank Depositors of the Province of Quebec, signed by Mr. Logan as President, and Mr. Mitchell as Secretary-Treasurer in respect to the depositors of the Home Bank. I will file this communication with the Clerk. There is another communication from the Association for the Benefit of the Depositors of the Home Bank, signed by John Pullen, of the National Executive Association for the Benefit of the Depositors of the Home Bank. This is addressed from 301 Transportation Building, Montreal.

I have received from Niagara-on-the-Lake a letter from Mr. Gripton, along the same lines, requesting the consideration of the Committee in respect to the interests of the depositors in the Home Bank. I have another communication from Mr. David Mills, 29 Grafton street, London, Ontario, in respect to a system of auditing in banks. I will file that with the Clerk.

Mr. MACLEAN: Are these to be printed in the record?



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The CHAIRMAN: It is unusual to do so. They are kept in the records of the Committee, but if any hon. Members move that they be printed, the Committee can take action. These are all to the effect of these numerous petitions which have been presented to the House. While I am bound to communicate them to the Committee they add nothing to our information. And I have a communication from Mr. Forke addressed to Mr. Mitchell who sent it back to me, attached to which is a letter written to Mr. Forke by Messrs. Campbell and Duke, of Stewart, B.C., in respect to the exchange charged on cheques for collection between banks.

Mr. MACLEAN: I think we ought to print that.

The CHAIRMAN: I will read it to the Committee. These are laid on the table of the Committee, and can be referred to at any time. This letter says:

“STEWART, B.C.

April 23, 1924.

Mr. FORKE,

Ottawa.

Dear Sir,—We sent a cheque to Vancouver for \$11.60 and the Standard Bank, Vancouver, charged us 50 cents exchange on it, it looks like highway robbery. I sent a copy of the letter to the Minister of Finance, as the Government has control over the banks. Kindly place this matter before the Banking Committee of the House, as it is about time something was done with the bank. We think the Government should look into this matter and the Banking Committee should know this.

We remain,

Yours truly,

CAMPBELL & DUKE,

per Howard Campbell.”

The CHAIRMAN: I have another communication from Mr. W. O. Sealey, 61 Hunter Street West, Hamilton, Ontario, in respect to Post Office Savings Deposits, recommending the abolition of the limit for deposits in Post Office Savings Banks, and then recommending the issuance of cheques on these deposits.

Mr. MACLEAN: I wish you would print that one, Mr. Chairman.

The CHAIRMAN: All these communications are available to hon. Members. If any hon. Member would like these to be printed—

Mr. MACLEAN: I would like that to be printed.

The CHAIRMAN: I would suggest that the hon. Member make a motion in due form and it will then be for the Committee to decide whether this shall be printed or not. I also have a communication signed by G. G. Henderson, Mayor of Fernie, B.C., speaking on behalf of the Fernie and Coal Creek depositors of the defunct Home Bank, appealing for support.

Mr. IRVINE: Do you intend to bring in your recommendation to the House to-day that the scope of the reference be enlarged?

The CHAIRMAN: I am not quite sure whether it will be possible for me to be prepared to move the concurrence to-day. I will surely move it to-morrow, but will do my best to move it to-day. The next order is, “report of the sub-committee.” The sub-committee has not met since our last meeting to recommend the names of witnesses, but in reply to Mr. Maclean I may say I have

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been requested by the Canadian Bankers' Association to permit Mr. Neill, who is the Acting President of the Bankers' Association, to be heard in respect to the matter of inspection, and, therefore, I would suggest that either this Committee or the sub-committee recommend that Mr. Neill be heard. I do not think it would be necessary to wait until the sub-committee recommend this, and I would suggest that we fix a date to hear the bankers' side on the question of government inspection.

Mr. IRVINE: I would suggest, Mr. Chairman, that if the Finance Minister has agreed that some form of bank inspection is necessary, we could hear the witness suggested when the amendment covering that question has been drawn up and is before this Committee for discussion. My point is that I do not think the Bankers' Association know very much about bank inspection because they have not got any, and I do not see how they can instruct us very much in the matter.

The CHAIRMAN: The Canadian Bankers have a large interest at stake, and they are awake to the effect a government system would have on their trade; therefore, I think it would be advisable for the Committee to listen to what they have to say in respect to this question.

Mr. MACLEAN: Mr. Chairman, I would like to ask the Minister of Finance if he is prepared to recommend to this country a system of government inspection of banks, and if he is prepared, I would like him to show us the Bill and let the banks see it at the same time, and we will be able to arrive at a conclusion. If we do not settle some of these questions pretty soon we will find ourselves at the end of the session without any distinct settlement of these important questions, and they will have to go over again. They have been up in previous years, and to my mind the way to deal with these questions is by way of a concrete proposal. It is time we had one before this Committee in regard to government inspection of banks, especially inspection under the Department of Finance. If we can get a statement from the Minister to-day that he has accepted it, or is considering it, and that his law officers are preparing some amendment, we could then get on with some other proposition.

Hon. Mr. ROBB: Mr. Chairman, I did not know that Mr. Neill had been proposed as a witness until you made the statement. I think the question raised by Mr. Maclean is a fair one, that it is about time the Government declared its policy, and I say frankly now that the Government has determined that we should have a system of bank inspection under the Finance Minister, and we will submit within a short time for the consideration of the Committee proposals to organize along that line. Possibly the man we place at the head of it will be called a "Bank Inspector" and not a "Chief Auditor." The question we are considering very carefully in these days when every person wants economy is as to whether we can use the present machinery so as to avoid duplication and an additional number of auditors going about. If we can use the shareholders' auditors we want to do so. You will understand that these auditors must be of a select class, and men of standing, and these are changed from period to period, and the question we are considering is whether this Inspector should in the first place compel these auditors to send to him, as they now do to the directors, the sworn statement that they will check over, and will make bank inspections at the Head Office or at any branch considered necessary at least once a year and possibly oftener. But we want to make it function so that the public will generally understand that an inspector going into a bank at any time to inspect it is not an indication that there is anything wrong with the bank. The danger in the past has been that if you sent an auditor in, at once there was a suspicion created against the bank. We want to make it function now so that it will be



an ordinary and common thing for the bank inspector to drop in any time, and the public will consider that the Department is simply doing its duty. Along general lines, that is what we have in mind and what we are trying to work out, and a proposition will be submitted to this Committee within a very short time. I should be very glad to have Mr. Neill come before this Committee so as to get the bankers' point of view. I do not see any objection to that; indeed, I can see where it will be helpful.

Mr. MACLEAN: Might I make another suggestion? I would like to ask the Minister of Finance this question, calling his attention to the class of officials who have appeared here from the United States—I would suggest to the Minister that some of us are thinking over the appointment of some kind of an official, something like them, who would consolidate the office of the Receiver General, and the Head of Banking Inspection, and things of that kind, and we would have to have responsible officials of the highest class. I would give him \$10,000 or \$20,000 a year for his services—

The CHAIRMAN: We are not proceeding in order. If Mr. Ross will advise us when Mr. Neill can be here—

Mr. Ross: Mr. Neill is in New York to-day, but I can communicate with him and he will attend at such time as the Committee finds convenient.

Mr. IRVINE: I suggest we have the Government proposition and then call Mr. Neill and we can see what objection they have to it.

Hon. Mr. ROBB: Who is Mr. Neill?

Mr. Ross: Acting President of the Canadian Bankers' Association, and if I might be permitted, I would suggest to the Committee that the statement of the Minister regarding Mr. Neill being in a position to make some suggestions in regard to this amendment, is a good one.

Hon. Mr. ROBB: I would like to hear Mr. Neill.

Mr. RYCKMAN: I notice you suggested that Mr. Neill's evidence be limited to bank inspection. I think his opinions would be very valuable to this Committee on other matters, and I wish we could hear him on other points as well.

The CHAIRMAN: I think I have been quite liberal in allowing witnesses to be questioned within the limits of the reference, and perhaps at little outside of it.

Mr. McMASTER: Giving it a broad interpretation.

The CHAIRMAN: Yes.

Mr. RYCKMAN: Mr. Neill should know upon what we are going to question him.

The CHAIRMAN: If the Committee agree I would suggest that we fix Friday as the day upon which to hear Mr. Neill. To-morrow is to be taken up with Dr. Tory's evidence, and we could hear Mr. Neill on Friday at 11 o'clock.

Mr. IRVINE: When do you propose taking up the other part of the reference, regarding the reimbursement to the Home Bank depositors?

The CHAIRMAN: I do not believe that is before the Committee at the present time.

Mr. IRVINE: The consideration of it is.

Mr. MACLEAN: In regard to the extension of Post Office Savings Banks, I offer the following notice of motion:—

“That in the opinion of this Committee the Post Office Savings Banks System be extended by marking cheques against accounts in same at the office of deposit.”



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That would be a great convenience to the public, if they could mark their cheques.

The CHAIRMAN: That will remain on the table until the next sitting of the Committee.

Mr. McMASTER: I move, seconded by Mr. McKay,—

That a report be presented to the House recommending that the minutes of proceedings and evidence taken before the Select Special Committee on Agricultural Conditions of last session, be referred to this Committee.

The reason I move this resolution is that last year we obtained a good deal of what I think was valuable information from numerous people concerning rural credits, and as that matter comes before us this year, I think it will be well to have these proceedings before the Committee formally so that reference may properly be made to the evidence given and the subject matters treated in the evidence in the proceedings of this Committee.

The CHAIRMAN: It is moved by Mr. McMaster, seconded by Mr. McKay, that a report be presented to the House recommending that the minutes of proceedings and evidence taken before the Select Special Committee on Agricultural Conditions of last session, be referred to this Committee.

Motion agreed to.

The CHAIRMAN: I think the report of the Committee has already been distributed with the sessional papers of last year, but I will endeavour to have a new copy issued to all the Members of the Committee.

Hon. Mr. STEVENS: You do not suggest re-printing?

The CHAIRMAN: No; I think there are spare copies enough for the members of the Committee. We had decided at the last meeting that the first witness this morning would be Mr. Finlayson, on the subject of bank inspection. We will hear him now.

GEORGE D. FINLAYSON, called:

*By the Chairman:*

Q. Mr. Finlayson, you are Superintendent of Insurance?—A. Yes, sir.

Q. Have you a statement to make to the Committee in respect to the introduction of a government system of inspection of banks? If so, will you make it, and then perhaps some of the hon. Members would like to ask you a few questions.

Mr. MACLEAN: Is this statement of his own motion or on behalf of the Department?

The CHAIRMAN: On behalf of the Department.

The WITNESS: Mr. Chairman, I have prepared no statement regarding bank inspection. I have not studied the bank question at all. I have had no experience with banks. Our Department inspects every year some three hundred odd Insurance, Trust and Loan Companies, and I had rather assumed that my evidence would be mainly on our experience in connection with these companies rather than in connection with banks. We have never inspected banks and have never even scrutinized bank returns officially.

Mr. GOOD: Mr. Chairman, I would suggest that Mr. Finlayson give us some idea of the usefulness of the inspection which was established, I think, about two years ago with regard to Trust and Loan Companies, which are somewhat similar to banks. I think if he would give us his experience, or a statement which would cover those points, the Committee would be assisted very much.

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The WITNESS: Mr. Chairman, the Act authorizing systematic government inspection of Loan and Trust Companies was inaugurated four years ago, in 1920. Prior to that there had been passed, in 1914, general Acts, the Loan Companies Act 1914, and the Trust Company Act, 1914. Those were the first general Acts dealing with Loan and Trust Companies of that character incorporated by the Dominion Parliament. Theretofore they had been governed by a section in the Companies Act. Dealing particularly with Loan Companies there was a provision in the Acts of 1914 somewhat similar to what is now in the Bank Act. Section 69 of the Trust Company Act, of 1914, provided that the Company should render annual statements to the Minister of Finance. Then Section 70 was as follows:

"The Treasury Board, upon the report of the Minister, may appoint some competent person as inspector to investigate the affairs and management of the company, and shall report thereon to the Minister; and the Treasury Board may also prescribe the manner and the extent to which the investigation shall be conducted. It shall be the duty of all officers and servants of the company to produce for the examination of any such inspector all books or documents in their custody or control in relation to the matters under investigation; any such inspector may examine upon oath all officers or servants of the company in relation to its business, and may administer the oath accordingly".

The Section of the Loan Act was exactly similar. It is important to notice that this was a permissive section, "The Treasury Board may appoint" some person. It required first of all a report by the Minister to the Treasury Board, and they might then appoint some person to make a special investigation of any particular company. Those two Acts remained in force for six years but the provisions of those sections were never invoked, and if they had remained in force for twenty years it is safe to say they never would have been, for the reason that they contemplated, first of all, a report on a particular company. During these six years it was pretty well known, I think, that there were Loan and Trust companies that should be examined, that needed examination; yet, for the very reason that the Minister has just mentioned in connection with the Banks it was never done. It was felt that the moment the Government appointed a man to go into that company, suspicion was cast upon it. If it needed examination, then there was danger of a run on the company, and the company was probably damaged. If on the other hand it did not need examination, if the suspicions were unfounded, then a serious hardship was imposed upon the company. In 1920 it was decided that there should be systematic, periodical inspection of loan and trust companies, and in that year the two Acts were amended to provide that, "the Superintendent shall visit personally, or cause a fully qualified member of his staff to visit at least once in each year the Head Office of each company required by this Act to make returns to the Minister". Since that time, commencing with 1921, there has been an annual examination of every loan and trust company.

*By Mr. MacLean:*

Q. How many officers does it take to do that?—A. One man.

*By Mr. McQuarrie:*

Q. Has the result been beneficial?—A. We think so.

*By Mr. MacLean:*

Q. Have you corrected any abuses under it?—A. We think so.

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*By Mr. Euler:*

Q. How many such companies are there?—A. Fifteen of each.

*By Mr. Spencer:*

Q. With 300 offices?—A. I am speaking now of loan and trust companies. There are 30 of them altogether. Then the insurance companies number about 275 or 280.

*By Mr. Marler:*

Q. How many have you on your inspection staff, Mr. Finlayson?—A. We have about 8 or 9 men altogether.

Q. To examine substantially 300 offices?—A. Right.

Q. You verify the securities?—A. Yes.

Q. The mortgages?—A. Yes.

Q. The value of the mortgages?—A. Yes.

Q. Whether they are registered or not?—A. Yes.

Q. And the security behind them?—A. Not in every case. It is only in a very small percentage of cases where we have to investigate values and appraise the security, but new mortgages of every insurance, trust, or loan company are examined within a year after they have been placed. The documents are examined, the abstract of title, the solicitor's certificate, and the mortgage deed itself are examined.

*By Hon. Mr. Stevens:*

Q. That is, you examine the documents showing these things, in the offices of the company?—A. The documents in the office of the company, and inquire into the security, the land pledged, and if there appears to be reason for it we investigate further and have an appraisal of the property.

*By Mr. Marler:*

Q. Do you examine at the Registry Office as to whether these particular mortgages are in force or not?—A. That is usually not necessary. In western Canada we get a certificate; that shows the registration of the mortgage and also proves the title.

Q. It does not show the cancellation, though; it might have been cancelled previously. It might have been a registered deed of a mortgage, but you do not examine as to whether that has been cancelled or not?—A. Not usually. We take the ledger account. If payments are being made we may assume the mortgage is in force. If not, we inquire why. If the loan has been repaid we assume it has been regularly discharged. As a rule we do not inquire into discharges.

Q. You take the company's books?—A. Yes.

*By Mr. Spencer:*

Q. If you have any suspicion you can go a good deal further?—A. Certainly.

MR. IRVINE: Mr. Chairman, I rise to a point of order; has Mr. Finlayson finished his statement, or are we going to start questioning him?

MR. MARLER: I apologize, Mr. Chairman.

THE WITNESS: I think I had pretty well finished, when I answered those questions.

*By Mr. McQuarrie:*

Q. Just before you leave that, would you be good enough to explain the benefits which have resulted from this system of Governmental inspection of

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trust and loan companies, and in what way the present system is better than the old system?—A. Of course, there was no old system of inspection; the old system was nothing at all as far as the Government was concerned. We received the statements, they were simply compiled from the statements rendered, and they were issued in an abstract, a summary statement. There was no attempt, no pretence of inspection. The figures were, as a rule, I think, never altered from the statement submitted. It was found when we came to investigate those companies that there were some investments never authorized, investments outside the power of the company. The company, under its charter, or under the general Act, was given certain powers of investment. In some cases these powers had been exceeded. Take a company, for instance, whose powers authorized it to invest in securities in Canada, Government securities, municipal securities, or securities of corporations incorporated by the Parliament of Canada, or within Canada. In some cases we found that government bonds of foreign countries had been invested in. In other cases, bonds, and securities of corporations incorporated in the United States had been invested in. There were a number of cases of that kind. These were unauthorized investments. In some cases they had caused loss. That, I think, is entirely prevented at the present time.

*By Mr. Maclean:*

Q. They were all cleaned up, all these illegal investments?—A. They were either cleaned up or written off; I do not say they have recovered all that had been invested in them. There was also the question of loans to directors. Under the old Act of 1914 loans to directors were permitted; there was no prohibition. The Act of 1922 imposed that prohibition. As a result of our investigation, we found that between 1920 and 1922, much of the trouble and much of the weakness of these companies had arisen from the fact that loans were made to the directors of the company improperly or imperfectly secured. Under the Insurance Act since 1910 no loans to directors of insurance companies have been permitted. Loans to directors existing before 1910, in the case of the Insurance Act, were permitted to be continued; it was not made retroactive. Loans placed in good faith before the passage of the legislation were permitted to be continued, but no new loans were allowed. We followed the same course in amending the Loan and Trust Companies' Act in 1922; we said that thereafter there should be no loans to directors of these companies. Loans placed in good faith before that were permitted to remain. There is also the question of charged interest on loans in arrears. We found that many companies were charging interest on loans that were long past due. The loans were dead, frozen. Some companies had carried into their revenue the interest that was being charged up to these loans, interest at the original rate was being credited and charged to the loan just as if it were being earned. In some cases we found that dividends had been paid to the shareholders out of this charged up interest. In some cases we found this; we found that companies with loans in arrears had foreclosed the property and had continued to charge interest at the original mortgage rate on the real estate account.

*By Mr. Euler:*

Q. Does that regulation concerning no loans to directors apply to companies in which directors of the insurance company may also be directors?—A. No, we have not gone that far, sir. We realize the difficulty of going that far, to say that a loan company shall not make a loan to any other company in which the director of the loan company is also a director. That is what you mean, is it not?

Q. Yes?—A. It does not go that far. Dealing with this question of real estate, we have found that some companies—there are very few, I must say—

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had followed that practice, they had made a loan at 8 per cent, 9 per cent and 10 per cent, the loan had got into bad standing, and they had foreclosed. They got a valuation of the property which was considerably in excess of the value of the mortgage at the time of foreclosure, and they continued to charge interest to that real estate account at the original 8 per cent, 9 per cent or 10 per cent, notwithstanding the fact that there may have been little or no revenue derived from the property. That, of course, we regarded as a very bad practice, and in our first year's examination, in all those cases we wrote back or noted this interest and wrote it off the book value of the property.

*By Mr. Good:*

Q. You have had to revise the financial statements of these companies?—A. Oh, very frequently.

Q. Write down their assets?—A. Yes, sir. In the case of real estate, we have had more valuations on real estate in connection with the loan and trust companies during the past two or three years than we have found necessary in the case of insurance companies for the last fifteen years; mainly, I believe, because of the fact that these loans had been carried on without proper appraisalment and valuation.

*By Hon. Mr. Stevens:*

Q. How many of these loan companies accept deposits?—A. About one half, I should say. I can give you the exact number.

*By Mr. Maclean:*

Q. Roughly, what is their total deposits?—A. The deposits of the fifteen loan companies incorporated by the Dominion Parliament, at the end of 1923 were fifteen million dollars, roughly speaking.

*By Hon. Mr. Stevens:*

Q. That is the aggregate?—A. That is the aggregate. Out of fifteen companies there are eight that take deposits.

Q. And any of the trust companies?—A. The trust companies take deposits but they call them "guaranteed funds"; that is, money deposited with the company in trust for investment. The relation is not that of debtor and creditor, it is a trustee deposit.

*By Mr. Good:*

Q. Have you found in any case the deposits to be jeopardized by bad management or bad accounting?—A. Well, of course, the business of the companies as a whole has been weakened by bad investments in some cases.

*By Mr. Coote:*

Q. Have you had any failures?—A. No, sir.

Q. You have not had to close up any of the companies?—A. Not so far.

*By Mr. Euler:*

Q. Have you authority to close up a company if you think it necessary to do so?—A. Yes, sir.

*By Mr. McQuarrie:*

Q. Do you think the Government inspection has averted any disasters?—A. It is always very difficult to say what might have happened.

*By Mr. Euler:*

Q. Have you ever closed up a company?—A. A loan company or trust company?



Q. Yes, as a result of your inspection, finding it is in a bad condition?—  
A. No.

*By Mr. Maclean:*

Q. But you made them improve their position?—A. We think so.

*By Mr. Irvine:*

Q. Is the inspector under a penalty to make his report annually to the Minister?—A. No, it is set out by the Act, and he always has done it.

Q. Just exactly what is the power of the Minister of Finance when he gets that report?—A. The Act as it stands now, with the amendments of 1920 and 1922 provides for the systematic yearly inspection of the companies and a report by the Superintendent to the Minister. Then the procedure is as follows:—

“(1) If as the result of the examination as aforesaid of any company the Superintendent believes that the assets of the company are insufficient to justify its continuance in business, he shall make a special report to the Minister on the condition of such company.

(2) If the Minister, after a reasonable time has been given to the company to be heard by him, and upon such further enquiry and investigation as he sees fit to make, agrees with the opinion of the Superintendent, he may suspend or cancel the certificate of the company, and the company shall thereupon cease to transact further business. Provided, however, that the Minister may, during such suspension or cancellation, issue such conditional certificate as he may deem to be necessary for the protection of the public.

(3) If the Minister deems it advisable, the said conditional certificate may provide that the company shall, during the continuance of such conditional certificate, arrange for the sale of its assets and for the transfer of its liabilities to some other company under the provisions of sections seventy-one and seventy-two of this Act.

(4) If upon the expiration of the conditional certificate no arrangement satisfactory to the Minister has been made for such sale and transfer, and if the company's condition is not then such as to warrant the restoration of the company's certificate, the company shall be deemed to be insolvent.”

*By Mr. Euler:*

Q. Do you think, Mr. Finlayson, if you had the double liability in the Act it would be of much protection to the public?—A. I do not think it is necessary. I am going into that largely on our experience with the insurance companies. We have no double liability there and the insurance companies are under a very much more serious hazard, particularly fire insurance companies, than the loan, trust, or life insurance companies are. We have never thought it would be beneficial to have the double liability on shareholders. I should point this out, that in our revised statements we never give any credit whatever as an asset to unpaid capital, subscribed but unpaid capital. There have been companies that carry that into their assets and treat it as a good asset, but we write it out.

*By Mr. Irvine:*

Q. Do you think, Mr. Finlayson, that the principle of insurance could be extended to banking?—A. I should think that would be more a question for expert bankers; I am not an expert banker or in fact any kind of banker.

Q. From your general knowledge, do you think it would be possible?—  
A. I could never see any reason, as far as new transactions are concerned, why

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inspection would not be very beneficial. As to whether bank inspection will cure any evils that are existing now, that is another question.

Q. I did not limit my question to the principle of inspection, but to the principle of insurance.—A. You mean only deposits?

Q. No, the principle upon which insurance is organized, the co-operative idea.—A. Most of our insurance companies are not co-operative.

Q. Are not the policy holders actually shareholders in most of the companies?—A. No; we have only one purely mutual life insurance company in Canada. All the others are stock companies.

Q. Is not the tendency towards mutual insurance?—A. It is not perceptible in Canada.

*By Mr. Speakman:*

Q. Before you leave that point, are there any trust, loan or insurance companies operating under purely provincial charters; if so, do the powers of your inspection extend to them?—A. No. There are quite a number of loan and trust companies incorporated by the various provinces. In fact, the majority of the trust companies are under provincial jurisdiction. For loan companies, I should say it numbers about equally, half and half, under the jurisdiction of the Dominion and under the jurisdiction of the provinces. In the case of the trust companies, the larger trust companies are under provincial jurisdiction; I should say probably fully three quarters of the assets of the trust companies are assets of provincial corporations, and under our constitutional system in Canada the Dominion Parliament can exercise no authority whatever over these companies incorporated by the provinces.

*By Mr. Irvine:*

Q. Has the inspection anything to do with the fixing of interest, or regulating that in any way?—A. No.

*By Mr. MacLean:*

Q. On the whole, considering these companies that are under Federal control, you think it is in the public interest to continue that system of inspection?—A. We think so. We think this; we do not say that Government inspection has removed all the weaknesses of these companies; these weaknesses had grown up, and Government inspection is not, in a very short time, going to remove them. We feel, however, that so far as new transactions are concerned, Government inspection has been and will be very beneficial.

*By Mr. Coote:*

Q. Does the Act limit the amount of the loan you can make, in proportion to the paid-up capital of the company?—A. No, sir.

Q. Do you have any loan existing exceeding the paid-up capital of the company?—A. Not to my knowledge. In fact, I think I can say definitely there are none.

*By Mr. MacLean:*

Q. Are the big trust companies in Toronto and Montreal mainly under provincial jurisdiction?—A. The larger ones are under provincial jurisdiction. The National Trust Company and the Toronto General Trust Company—these are the companies you were probably thinking of—are under provincial jurisdiction. The Trust and Guarantee Company is a provincial company.

*By Mr. Spencer:*

Q. Do they all have provincial government inspection?—A. Not all provinces. Ontario has at the present time. The province of Quebec has had an

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inspection of trust companies for some years. That of the province of Ontario is quite recent, beginning in 1921 or 1922.

*By Mr. MacLean:*

Q. Does that include loan companies too?—A. Yes.

*By Mr. Coote:*

Q. Have you inquired of the directors of those companies as to whether they are really well acquainted as to the affairs of their own companies? In other words, do you believe that these directors are really directing?—A. In some cases the directors are not informed as to the condition of the company. In some cases they are quite in the dark. It may be interesting to the Committee to know our experience in connection with companies that appear to be developing weaknesses. Our experience with insurance companies has been longer than with loan and trust companies, and we have developed the practice of seeing that the directors are fully informed of anything that appears to us to be dangerous or unauthorized by the Act. If we find that unauthorized investments are being made, or investments that are not fully secured, or if we think there are matters which are transpiring at the Head Office which are not being communicated to the directors, our practice is to first of all remonstrate with the manager, and ask him to have it drawn to the attention of the directors. If we find that is not done, we write to the manager of the company and have copies made of the letter, which are sent by registered mail, to every director of the company.

*By Mr. Euler:*

Q. Do you not usually find that there is a small executive body chosen to handle these affairs?—A. Very often that is so; very often the manager is the whole board of directors, or there is a small executive committee. There are other directors who, by nature of their location, their residence, cannot give close attention to the company. We think that these directors should be made aware of anything that we think is undesirable in the conduct of the company, and I may say this, that in our experience with the insurance, trust and loan companies, that method of supervision is 100 per cent effective, where we have directors who are independent of the company. By that I mean directors who are not involved and tied up to the company by loans which are inadequately secured.

*By Mr. Shaw:*

Q. You have a system, have you not, of valuing securities?—A. Yes, sir.

Q. On referring to the book which you issue on the value of securities, I notice that the last valuation of Home Bank stock is 94, and of course in reality it is worth nothing. I was wondering first of all how you secured these values, and secondly in the matter of bank stock, if you have access to the other departments of the Finance Department to get any information dealing with banks.—A. Are you speaking of our book for 1923 or 1922?

Q. I think the one I saw was for 1922.—A. It does not appear at all in 1923.

Q. Ninety-four was the valuation, but as a matter of fact it was not worth anything.

*By Mr. McQuarrie:*

Q. Do you say there was no Home Bank in 1923?—A. We did not give any value to it.

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*By Mr. Good:*

Q. When was that report issued, that 1923 report?—A. This list of valuations?

Q. Yes.—A. It is dated January 1st, 1924, but I think it appeared on the 20th or 23rd of January of this year.

Q. Then it was compiled subsequent to the failure of the Home Bank?—

A. Yes.

*By Mr. Shaw:*

Q. How do you arrive at these values?—A. The bank stocks are very simple; we take the quotations.

Q. Have you access to the Department of Finance to get any information they have?—A. I suppose we have, but we have never asked for it or availed ourselves of it. We do not think that that would be as valuable as the market quotations. I do not think it would have been, in the case of Home Bank stock.

*By Mr. Coote:*

Q. Would it not be a wise provision to state in the Trust Companies' Act that they should not hold bank stock, or any stock carrying with it a double liability provision?—A. I must say that bank stock is not popular as an investment with these companies, and has not been for some years. They have always been afraid of the double liability clause.

*By Mr. McMaster:*

Q. Just before we get further into this aspect of the question, there is something I am quite clear on. Do you ever, in your department, examine trust companies with provincial charters?—A. No, sir, we have no right to do that.

Q. For instance, you do not look into the Royal Trust Company?—A. No, sir. I must make one exception to that. The province of Nova Scotia has passed a Loan and Trust Companies' Act very similar to ours, and they asked our assistance in inaugurating the system of inspection. We did, as a matter of fact, inspect the loan and trust companies of that province last year, but more by way of comity between the two governments than by any authority on our part.

*By Mr. Coote:*

Q. Is bank stock a trust security?—A. Yes; trust companies are authorized to invest in it. They can invest their company funds in it, but not their trust funds. The trust company has its own company funds, its capital and its reserve, and they are authorized to invest that in bank stocks.

*By Mr. Maclean:*

Q. And loan money to brokers on bank stocks?—A. Of course, you must remember that as far as trust funds are concerned, in the event of a deposit being made with a trust company, in trust for investment, if there is no authorization given, then the Trustee Act applies, and the investment must be made in trust securities. However, all the trust companies are authorized to invest trust funds in accordance with the terms of the trust. The depositor may deposit money with the trust company and sign a paper which gives discretion to the trust company to invest these funds. With that form, the company has practically unlimited discretion in the investment, because they are investing in accordance with the terms of the trust.

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*By the Chairman:*

Q. And the depositor has no further security than a depositor in an ordinary bank?—A. That is so, where they deposit the money on those terms, and that is one of the things we have tried to tighten up in this Trust Companies' Act, in our amendments of 1922.

*By Mr. Coote:*

Q. Do not these trust companies invest a lot of money in real estate mortgages?—A. Yes; that is a trustee security.

Q. A large percentage of their money?—A. A large percentage.

Q. What is your experience in connection with the loans made by some of these trust companies on western real estate? Have they not sustained very large losses?—A. Yes, some of them have sustained losses; some of them have written off interest, some written off principal. They have foreclosed and taken their losses.

Q. Have you sent your examiners to the western offices of any of these companies?—A. In some cases.

Q. To inquire into the real security behind these mortgages?—A. Yes.

*By Mr. Shaw:*

Q. You have suggested that the person who deposits money on trust is not in the position of debtor and creditor; that relationship is not established. What I want to ask is, would it not be possible to extend this same principle to the banks to some extent, and in that event the depositors might have a preference instead of as at present, where they are unsecured creditors?—A. They have a preference now.

Q. Not the depositors?—A. As against the shareholders.

Mr. McMASTER: Yes, but they have that in any company.

*By Mr. Shaw:*

Q. Suppose you go to a trust company with \$1,000 with instructions to them to invest that either in your name or their name, and they invest it in a particular way; the benefits of that come to you entirely, and if the company failed you are perfectly secured so long as your security is there. Is that not true?—A. So long as the security is all right, that is first rate; but supposing that the security specially allocated to this particular account is bad in the event of failure, the depositor is worse off than if he had a general claim against the assets of the company. It works both ways. But according to your method, if the company got into difficulties and became insolvent, say, your depositor has to fall back upon his particular security. That security may be the worst in the bunch, and he will suffer more than if he took his lot among the other depositors on the general assets of the company.

*By Mr. Spencer:*

Q. Under Government inspection his security is liable to be pretty good?—A. We think there is a fair chance of it.

*By Mr. W. F. Maclean:*

Q. Is there any way by which the trust and loan companies of the country could come under Federal jurisdiction?—A. Only by an amendment of the British North America Act.

Q. You would not care to give an opinion as to whether that is desirable or not?—A. Our opinion might be biased.

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*By Mr. Shaw:*

Q. There is some interesting reading in the evidence given in connection with the Home Bank in which I notice that that bank was tangled up with a company called the Prudential Trust Company. That company had financed a large amount of money contrary to the provisions of its charter. It was an ultra vires transaction. Have you any knowledge of that particular matter?—A. Yes, it has come to my knowledge.

Q. Can you disentangle that for the benefit of the Committee?—A. As far as I can see, it is a very complicated transaction; there is no doubt about that. It ultimately took the form of a trust investment or trust deposit of money for the purpose of investment, but with practically specific instructions to invest it in a particular security.

Q. Are you speaking now of the Prudential Trust Company?—A. Yes. We say that that is inconsistent; we say it cannot be a guaranteed investment, a guaranteed trust investment, when there is absolutely no discretion left to the Trust Company in the investment of its funds. In that case, we say the company was acting as agent. It had no discretion. It got a deposit of money nominally in trust for investment, but it was told to invest it in a particular security. Therefore, we say there could not be any guarantee; it was an agency transaction.

*By Mr. W. F. Maclean:*

Q. Government bank inspection might have checked that in connection with the bank?—A. I think it would.

*By Mr. Healy:*

Q. What rate of interest do the loan companies usually pay on savings deposits?—A. Usually 4 per cent.

Q. The difference between 3 and 4 per cent would be one per cent. Do you think that that could be set aside to insure the savings deposits?—A. I really can not say.

Q. Would your actuaries be able to tell us that?—A. If you would tell me what the premium would be in the insurance of savings deposits—

Q. It is the difference between three per cent and four per cent; that is one per cent a year?—A. What is the net premium for insurance of savings deposits? That is what it would come to. It is not an actuarial problem because there is no experience that I know of that would guide us as to what the risk involved is. You would have to find out the risk to know the benefit given by an insurance company or by the Government.

Q. You have had 20 years experience with regard to the chartered banks in Canada?—A. That would have to be gone into; I cannot say off-hand what that experience is.

Q. Could it be done?—A. All I can say is that I do not think it has been done successfully.

Q. We have never tried it in Canada?—A. No; I am informed that some States have. I have no official knowledge; I have never investigated to find out.

*By Mr. Good:*

Q. As to the percentage of losses?—A. Yes. If you want to find out the premium that would have to be paid, you would first of all have to get the risks and the value of the benefit. After that, it would be a very simple matter to work out the annual premium for the insurance. I do not think that are statistics that would justify any one in making a computation. This has never come to my attention.

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*By Mr. Coote:*

Q. The financial conditions fluctuate so much between different periods, that you think it would be advisable to determine what the risk is?—A. I think so; I do not see how it could be done scientifically.

*By Mr. Spencer:*

Q. You say that before the Government took over the inspection of trust and mortgage companies they were obliged to send in monthly returns to the Minister of Finance?—A. Not monthly, yearly.

Q. Yet when the time came when it was decided to have inspection you found there were a lot of remedies needed?—A. Yes.

Q. Would I be correct in saying that there was about the same attention given to the returns of the loan and trust companies by the Finance Department as is now given to the returns from the banks, that otherwise, the returns were just compiled and advertised?—A. Yes, I think they were just compiled, there was no authority to alter a statement. There was no authority to the Minister or to any official of the Department to write off unauthorized investments or anything of that sort. They practically had to accept the statements as they were officially submitted.

Q. Then it is quite possible that if we have a Government inspection of banks, that Government inspection will be of the same benefit to the present banking system as the Government inspection of mortgage, loan and trust companies has been to those companies?—A. I cannot speak as an expert banker. There may be some peculiarities in the banking system. I think, however, that *prima facie* that is true; there would be a benefit. Following up that question, I would like to point out that there is a vital difference between the assets of insurance, trust and loan companies, and the assets of banks; mainly in this; that in those companies we give no consideration whatever to personal security. Our insurance, trust and loan companies are permitted to make loans on collateral. We value that loan strictly and value the tangible security pledged. If we cannot find sufficient value in the tangible security to cover the loan, a deduction is made or the loan is wiped off. A man of great resources may have a comparatively small loan from one of those companies—

*By Mr. McQuarrie:*

Q. What do you mean by it being wiped off?—A. If the security pledged is worthless, we simply disallow the loan entirely, regardless of the value of the borrowers' covenant.

*By Mr. Hughes:*

Q. You mean it is written off?—A. Written off. We give no consideration whatever to the personal security of the borrower.

*By Mr. McQuarrie:*

Q. But the borrower will have to pay?—A. He is retained on the covenant, but we do not rely on it. In our revision of the statement we say that if the tangible security pledged becomes worthless, the loan is worthless, from our standpoint. We do not give any credit for the personal covenant. We are required to do that. In the case of the banks, of course, that is altogether different. A bank loans on personal security, and on the security of all kinds of assets. It is interesting to note the constitution of the assets of our Canadian life insurance companies. At the end of 1923, real estate was three per cent of the total. That almost exactly agrees with the banks. There is also about three per cent of their assets in real estate. We have in the life companies, mortgages 25 per cent; policy loans, that is, loans on the security of the com-

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panies' policies, 14 per cent; bonds and debentures, 45 per cent; stocks,  $4\frac{1}{2}$  per cent; cash, one per cent; agents' balance, three per cent. That is really the only item where personal security enters at all. The company has a certain balance due from those agents and the agents must be assumed to be good for it.

*By Mr. Healy:*

Q. What kind of stocks are they permitted to invest in?—A. The stocks of companies in the case of insurance companies and loan and trust companies as well; stocks which have a dividend-paying record.

Q. Industrial stocks?—A. Industrial stocks. In the case of preferred stocks, they have to show dividends for at least five years; in the case of common stocks, they have to show a continuous dividend-paying record of at least four per cent for seven years before they are eligible for investment.

*By Mr. Coote:*

Q. I noticed that one company had approximately one and a half million dollars in common stock in an industrial corporation, and that it was practically all watered. Do you think that that is a proper investment?—A. What is it worth now? It might have been watered originally. Our valuation, we think, covers that. We say, "What is it worth at the present time?" And has it that dividend record, a continuous dividend record of seven years. That is really a very drastic condition. It is surprising how few common stocks measure up to that standard.

*By Mr. Good:*

Q. Suppose the dividends are not paid but are placed in reserve. The company would be in a stronger position than if they had paid the dividends?—A. That is true; this requires payment.

Q. In that respect is it defective?—A. There is something in that; it is hard to tell where a company places it in reserve whether it is a real reserve or fictitious.

*By Mr. McQuarrie:*

Q. Could your department take over the inspection of banks?—A. I should think not. I think it is work for an expert banker.

*By Mr. Euler:*

Q. Do you inspect all the branches of the companies throughout the country?—A. No, sir. We have found this in the case of insurance companies—I think it is safe to say that we have never inspected a dozen branches of all the companies over all the years of our experience.

Q. Just the head offices?—A. Just the head offices.

Q. I think you said that one man did that, and that later nine men were required?—A. The first question was asked with respect to the loan and trust companies. To-day we have thirty, and I said that one man conducts this examination.

Q. It is a head office investigation?—A. Yes, and in some cases, loan and trust companies' branches, important branches where there are assets being administered.

Q. And the nine men?—A. They examine the insurance companies.

*By Mr. Coote:*

Q. Is there any limit to the rate of interest which those companies can pay or to the rate of interest which they can charge?—A. No limit whatever.

[Mr. George D. Finlayson.]

*By Mr. Shaw:*

Q. Do you change your auditors around from time to time?—A. As a rule, yes. We like all our men to get experience of all our companies so far as possible; we realize the advantage of experience in this work.

*By Mr. McQuarrie:*

Q. What increase do you think it would involve in your staff to enable you to take over the inspection of banks?—A. I have never given any consideration to it, Mr. McQuarrie, I am really not able to say. As I have said, we have had no experience whatever with banks; we are not bankers.

*By Mr. W. F. Maclean:*

Q. Would you be prepared to say, inasmuch as we have branch banks in Canada, whether a system of bank inspection would have to include the inspection of branches as well as the inspection of head offices?—A. I could only answer that by analogy with our other companies, and I cannot see that the inspection of branches should be necessary. It seems to me that the weakness, in our experience, has all developed with the large transactions; and no matter where those transactions have been entered into, everything about them is known at the head office.

*By Mr. Shaw:*

Q. Was there any opposition at the outset to the inspection of the loan, trust and insurance companies?—A. I was not here at the outset, but to judge from the records, I do not think there was any really serious opposition.

Q. Do the companies favour it now?—A. I think they do as a rule. There may be an occasional dissent, but I think it is fairly well accepted. It is rather interesting to note some of the comments recorded in Hansard in 1875 when inspection of insurance companies was first suggested.

*By Mr. Hughes:*

Q. Does the Government pay the salaries of your men, or do the companies pay any part of it?—A. The government pay the salaries, and an assessment is made on the companies for the amount of the total expenses.

Q. What do you mean by expenses?—A. Everything. The entire expenses of this Department is defrayed by an assessment upon the insurance companies.

*By Mr. W. F. Maclean:*

Q. They have to pay without making a kick?—A. As a rule, there is no objection.

*By Mr. Healy:*

Q. Is there available, and I suppose there is—the total amount of deposits over a period of 20 years in the chartered banks of Canada?—A. I should think that that is available in our records.

Q. Also the total losses during a period of 20 years in deposits by failure of chartered banks?—A. I should think that that is on record.

Q. Could you, from those two statements tell us what percentage of interest on deposits would have to be set aside in order to insure savings deposits from now on, say?

Mr. GOOD: Assuming that the losses in the future would be the same as in the past.

Mr. HEALY: We are hoping that they will not be so many.

WITNESS: If you could assume that the losses in the future in the next 20 years were going to be the same as the losses of the past 20 years, you could, in the way you suggest, find the percentage.

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*By Mr. Healy:*

Q. Could you file with the secretary a statement of those two facts?—A. I could get it from the Department of Finance; possibly it is on record already.

Q. The reason I am asking you is that it is the business of an insurance actuary to give the figures?—A. I would not say that it is the business of insurance companies, because, so far as I know, in no place in the world do the insurance companies insure deposits, the ordinary deposits in chartered banks.

Q. We have now in Ontario a bank which has the Government behind the deposits, and which pays four per cent?—A. Yes, that is a Government bank.

Q. What some of us would like to find out in the event of the banking in this country getting into the hands of the Government—we find this particular government bank paying four per cent on insured deposits, while the chartered banks are paying but three per cent on deposits that are not insured, and the danger is now that the Government will go into the business of banking and become a competitor of the chartered banks.

AN HON. MEMBER: Let it go.

MR. HEALY: That would be a very bad thing. I think some of us have an idea that some of the savings deposits might be insured so that the chartered banks will retain those they have without losing them to the Government bank.

MR. W. F. MACLEAN: Do you not know that the Government in the United States is issuing savings certificates now at four per cent?

MR. HEALY: I am talking about banking in this country.

MR. GOOD: I think Mr. Finlayson understands the question. It will take him a little time to work it out.

WITNESS: I have not the figures at the present moment.

*By Mr. Euler:*

Q. Do you know of any private institution organized for the sole purpose of insuring deposits?—A. I am almost sure there is not. In the United States, insurance companies do in some cases insure deposits of a certain character. That is, there are deposits made with banks in the United States in pursuance of some statute, and there are public bodies, such as trustees and corporations, school districts, and that sort of corporation, which are required by the statute under which they are operated to have deposits with the bank insured. In that case the guarantee insurance companies do insure them. The funds of some States, possibly all, are required, when deposited with a bank, to be insured, and the insurance companies take that risk; but such a thing as the insurance of the deposits of the ordinary public by an insurance company, is I think, unknown in the United States.

*By Mr. McMaster:*

Q. Do you know the premium that is charged by such companies on those deposits?—A. I have it on file, Mr. McMaster; I would not like to say off-hand. I am speaking only from recollection. I could easily obtain it for the Committee.

Q. Is it a very heavy premium?—A. No, it is a comparatively light premium.

*By Mr. Good:*

Q. It would not be one per cent?—A. I think it approximates one-half that.

*By Mr. Shaw:*

Q. Mr. Williams told us that \$25 would insure \$1,000,000 of deposits?—A. That is on the experience of losses in deposits.

MR. GOOD: Mr. Finlayson can file what information he can get.

[Mr. George D. Finlayson.]

WITNESS: I can file a statement on the guaranteed deposits in the United States by the guarantee insurance companies.

*By Mr. Spencer:*

Q. Since we have had government inspection of trust and mortgage companies, have depositors lost any money at all in Canada?—A. No, sir, not so far as Dominion companies are concerned.

*By the Chairman:*

Q. Did they lose any before that?—A. There have been deposits lost in Canada.

Q. In trust and loan companies?—A. By the failure of trust and loan companies. I was going to read to you a paragraph I have here regarding the origin of inspection of insurance companies. The first hint of regulation antedates confederation. In the province of New Brunswick there was a provision which dealt with foreign insurance companies coming into the province. There was a requirement for registration, and the filing of annual statements. In the old province of Canada, in 1860 or 1863 there was a similar provision, and also a provision for the deposit of \$50,000 before obtaining a license. After confederation, in 1868, the same provision was carried into the Dominion Statutes. That went on until 1875. There had been several failures of insurance companies in the United States, and the public apparently, had become more or less disturbed, and in that year a systematic inspection of insurance companies was undertaken by the Act passed in 1875. Then in 1877 it was extended. In 1875 it was applied to five insurance companies, and in 1877 it was extended to life insurance companies, and in the case of foreign companies, the principle was adopted of requiring the assets to completely cover the liabilities in Canada, the liabilities to the Canadian policy holders. It is interesting to note that the origin of insurance inspection in Canada was for the purpose of dealing with the foreign company coming into Canada, not with the native Canadian companies. The order was that the foreign company was first dealt with, and then, apparently in order that there might be no discrimination, it was extended to the native companies. In 1875 when the first suggestion was made, I find this in the *Hansard*:—

“The efforts which have been made to obtain the greatest security for the mass of the people depending upon life insurance by Government inspection have proved in some very important instances to be quite abortive.”

There had been inspection in the United States prior to this date.

“The circumstances which have taken place in the State of New York in connection with some of the largest and most important life insurance companies doing business on this continent and in Canada, have shown how utterly hopeless it is to expect to obtain security for the public through the agency of Government inspection.”

Mr. McMASTER: That has a familiar sound.

Mr. SHAW: What is the name of the gentleman?

WITNESS: (Reading):

“Institutions supposed to be the most reliable, supposed to be the most deserving of public confidence, have crumbled away and left vast numbers of people who have paid enormous sums of their private moneys to those companies without the hope of securing the comfort to their families when they are obliged to leave them behind that they expected to do. Those institutions have crumbled into dust and caused wide-



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spread misery and misfortune throughout the country. I think the time has arrived when it has become the duty of the government seriously to entertain the question of giving some more direct, some more absolute certainty to persons investing their money in life insurance."

Mr. W. F. MACLEAN: And banks.

WITNESS: He went on to suggest the guarantee of life insurance policies by the Government. That suggestion was discarded, and the system of Government inspection was inaugurated in 1875, fifty years ago; and to-day, not a policyholder in any Canadian life insurance company has lost one cent.

*By Mr. Euler:*

Q. Does your inspection extend to fraternal insurance?—A. Yes.

*By Mr. W. F. Maclean:*

Q. Is there any place in the public accounts which shows what your department draws from the companies you inspect? You say that they pay the expenses. Is that shown in the public accounts in any place?—A. Oh, yes, the cost of the maintenance of the department at the present time, including salaries, expenses and everything else.

Q. Would the Minister of Finance or any one else, be able to tell us what the cost would be to the country if following the example of the insurance companies we put the cost of banking inspection on the banks themselves?

Mr. McQUARRIE: If it is done in the same way.

Mr. W. F. MACLEAN: If it is done in a perfect way, the banks ought to pay for it.

WITNESS: The expenses of the department are provided in exactly the same way as those of any other department. They are placed in the estimates and appear in the public accounts. But we strike an assessment upon all the companies in proportion to their premium income for the preceding years and they contribute rateably to the entire expenses. The expenses of the Department amount to about \$100,000.

*By Mr. Hughes:*

Q. Is that paid to the Receiver General?—A. Paid to the Receiver General.

*By Mr. McMaster:*

Q. How much did the inspection cost those companies last year, about?—

A. Last year the entire expenses of the department amounted to about \$100,000.

Q. But surely there are certain expenses of the department which are not entirely applicable to the investigations which you gentlemen make?—A. Nothing substantial, nothing worth talking about.

Q. Amongst how many companies, mortgage, trust and insurance, is the amount divided?—A. It would be divided approximately among 300. At present, the assessment is rated on the insurance companies only. We have in mind extending it to the trust and loan companies, as soon as we can ascertain approximately a permanent basis of proportion. I would say that the cost to the trust and loan companies would not exceed five or six per cent of the total. The contribution of each company is shown in our published report, at the bank. Here is the assessment upon the fire insurance companies—

Mr. W. F. MACLEAN: Just give us the page?

WITNESS: Page 97 (a) at the back of our report; Volume 1 for the fiscal year ending 1922. The largest amount contributed by a fire insurance company was \$1,476 for that year. The contributions of the life companies are probably

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a little larger. This is found on page 135A of Volume 2, Business of the Year 1922; the largest amount paid by any company was \$10,000.

*By Mr. Spencer:*

Q. What company was that?—A. The Metropolitan Life.

Mr. Good: Mr. Chairman, I would like to hear from Mr. Finlayson his opinion as regards giving publicity to these reports. There is a certain amount of information given to the public, he speaks of making reports to the Minister of Finance, but we have had various witnesses dealing with the question of the propriety of making public certain information regarding banks, and I would like Mr. Finlayson's opinion as to the dividing line between giving information to the public and the information which ought to be given confidentially to the Minister of Finance.

The WITNESS: We give the very fullest publicity in our report, as any Member can see by referring to it. We think that is desirable. Practically every asset of every company is shown here in detail with the book and the market values—the market values being our values. We think that is desirable because our appraisal of the assets may be wrong. While we try to get appraisals as authoritatively and independently as we can, still they may be wrong and we like to feel the public has the opportunity—

Mr. Good: To challenge it?

The WITNESS: To challenge it, and if it is wrong to correct it in their own judgment, so we attach the very greatest importance to the fullest publicity of the companies' statements. Whether that is possible in the case of a bank I would not like to say.

*By Mr. Maclean:*

Q. It keeps you up on your toes?—A. Well, possibly; it is a good thing for the companies and a good thing for the public.

*By Mr. Hughes:*

Q. These are permanent investments?—A. These are permanent investments, and there is a very vital difference between the assets of an insurance company and those of a bank. As I was proceeding to say, I have here the investments of Canadian life insurance companies, which shows that probably 97 per cent are tangible securities capable of the fullest appraisal, while only three per cent had any element of personal security. Now, when you come to a bank, of course, the situation is very different. You have ordinary current loans—

Mr. HUGHES: It is reversed, of course.

The WITNESS: You have current loans and discounts amounting to 50 per cent of the assets.

*By Mr. Hughes:*

Q. They are changing from day to day. Then you have a large amount of loans pledged collateral, but in the case of a bank you have to look beyond the collateral; you have to look to the personal security behind it.

Q. On commercial paper?—A. On commercial paper, yes; so I say that 75 per cent of at least of the bank's assets are of that character where the element of personal security enters, while in the case of an insurance, trust or loan company, 95 per cent are of the other character.

Q. Would it not be possible to treat them in the same way?—A. There is a very, very vital difference.

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*By Mr. Maclean:*

Q. There is a way of treatment for each loan?—A. Yes, insurance companies trust and loan companies are in that respect practically identical, but when you come to a bank you have a different class of security and assets altogether.

The CHAIRMAN: Are there any further questions the hon. members would like to ask Mr. Finlayson?

Mr. McMASTER: I do not think we should close too suddenly.

The CHAIRMAN: Mr. Finlayson will always be available if the hon. members would like to put any further questions to him.

Mr. McMASTER: I think, Mr. Chairman, I am only expressing the feelings of all the members when I say how very much obliged we are to Mr. Finlayson for coming here and for the very excellent information he has given to us.

Witness retired.

The Committee adjourned.

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

WEDNESDAY, May 28, 1924.

The Select Standing Committee on Banking and Commerce met at 11.00 o'clock a.m., the Chairman, Mr. Vien, presiding.

The CHAIRMAN: Are there any communications this morning? Any notices of motion?

The CHAIRMAN: I must inform the Committee that yesterday I moved in the House the concurrence of the House in the seventh report of the Committee, and that is was ordered:

“That the Minutes of Proceedings and evidence taken before the Select Special Committee on Agricultural Conditions last session be referred to this Committee.”

All the available copies of the report of the Select Standing Committee on Agricultural Conditions of last session are now on the table and if hon. members would like any copies they are at liberty to take one. I do not know whether we have enough for every member of the Committee but I think quite a number of you will find in your books of last session a copy of these proceedings.

Mr. McMASTER: They contain very valuable information.

Mr. MACLEAN: Have you any other report to submit to the House to be voted upon?

The CHAIRMAN: Yes, there is the report in respect to the Federal Reserve. Is that the one you mean?

Mr. MACLEAN: Have you not two reports before the House, one of which was adopted?

The CHAIRMAN: Yes.

Mr. MACLEAN: What was the other one?

The CHAIRMAN: It is the sixth report in respect to the study of the purpose, organization and operation of the Federal Reserve Bank.

Mr. MACLEAN: We have not got the authority of the House yet to take that up.

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The CHAIRMAN: We were to move the concurrence of the House this afternoon, but as it is Wednesday, and we are not sitting after six, some hon. members thought it advisable to postpone it. We could have taken it on Friday. Unfortunately many members who expressed a desire to speak on the motion will be absent on Friday; they leave by the early afternoon trains; and Tuesday is a holiday, and therefore, it will go to either Wednesday or Thursday of next week before we can move the concurrence of the House.

Mr. MACLEAN: Unless we do it to-day.

The CHAIRMAN: Unless we do it to-day, but several hon. members have objected to it. I have not the slightest objection in moving it to-day, but I understand that several hon. members have serious objections.

Mr. GOOD: Mr. Chairman, I object. I registered my objection to you, and I think a number of others object. We wind up to-day at six o'clock, and it is a foregone conclusion if it is objected to that we would not reach a vote to-day, and the whole matter will be hung up. I think that is a sufficient objection.

The CHAIRMAN: If the motion is defeated to-day it goes to the foot of the Order Paper, and I think Mr. Good is right in this, and that is why I yielded to his suggestion that occasion should be afforded to all the hon. members to speak on the subject, and that they should have full opportunity for doing so.

Mr. McMASTER: One of the Press men reminded me that Mr. Graham brings in his statement on railways to-day, and that will certainly take up a great deal of time.

The CHAIRMAN: I have a notice of motion from Mr. Hodgins as follows:

"Resolved that Section 131 of the Bank Act be amended so that government deposits will not have precedence over private deposits."

This will remain on the table until the next sitting. Are there any other notices of motion?

Mr. MACLEAN: I am willing to have mine come up—number six.

The CHAIRMAN: I invite all notices of motion so that they appear on the Order Paper for next sitting, but it is understood we will go through the evidence of the witnesses summoned before we take them up. On Friday it is understood we meet at half-past ten in respect to the Act respecting the General Animal Insurance Company of Canada, and at 11 o'clock we will hear Mr. Neill.

Gentlemen, we have the pleasure of having with us Dr. H. M. Tory, President of the University of Alberta, Administrative Chairman and of the Honorary Advisory Council for Scientific and Industrial Research. He was instructed by the Minister of Finance to prepare a report on the question of agricultural credits. The report has been printed and distributed, and it appears as sessional paper No. 142 of 1924. I suppose we might ask Dr. Tory to make a statement, and if any questions suggest themselves to hon. members, they will be free to ask them when the Doctor has finished with his statement to the Committee, if that is agreeable. I think we will make more headway that way.

Mr. McMASTER: Is that the way Dr. Tory would like to proceed?

Dr. TORY: Yes, Mr. McMaster.

The CHAIRMAN: Therefore, I would request you gentlemen to kindly refrain from putting any questions until Dr. Tory is through with his statement.

Mr. MACLEAN: We ought to get through with him to-day.

The CHAIRMAN: Have you any idea how long it will take, Doctor?

Dr. TORY: I am here to-morrow and the next day.



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The CHAIRMAN: We will do our best, and see how far we have progressed at one o'clock.

Dr. H. M. TORY, called, sworn and examined.

*By the Chairman:*

Q. I would suggest, Doctor, that you give us your qualifications, which I am sure will be interesting to the members of this Committee.—A. M.A., D.Sc., LL.D., F.R.S.C., F.R.H.S.—

*By Mr. McMaster:*

Q. What does F.R.H.S. mean?—A. Fellow of the Royal Historical Society; President of the University of Alberta, Administrative Chairman of the Council of Scientific and Industrial Research for Canada.

Mr. MACLEAN: And a member of this holy family?

Mr. McMASTER: But in a very restrictive sense. Mr. Chairman, I think you ought to ask Dr. Tory what he has done.

*By the Chairman:*

Q. What have been your activities in Canada in regard to agricultural credits?—A. I was a member of the Commission sent by the Alberta Government to Europe in 1913 as part of the American Commission on Agricultural Credits, and assisted in the report which was afterwards published by the Senate of the United States, as a Senate document on agricultural credits in Europe. That was my main activity in connection with agricultural credits. I made a report to the Alberta Government in 1914 on the subject I am now discussing with you. That report dealt only with the European situation. There were no general schemes of agricultural credit in existence in America at that time. We were working therefore, on European methods for the purposes of securing information.

Q. And since then, Doctor?—A. Since then I have been President of the Alberta University and have taken continuous interest in this subject, but until appointed to do this work I had not been officially connected with agricultural credits in any way.

Q. When were you appointed?—A. August 23rd, 1923.

Q. By a letter from the Minister of Finance?—A. Yes.

Q. Giving you your instructions, which appear on page seven of your report?—A. Yes. In interpreting the instructions given to me by the Minister of Finance, I understood them to mean that he wanted me to bring together information on systems of agricultural credit, as requested by this Committee, or the Committee on Agriculture last year, and his letter to me was accompanied by a document which I have printed in this report, and which was the final finding I think, of the Committee on Agriculture last year, commending a further study of the problem. I may say, Mr. Chairman, that while I was asked on August 23rd to do this work, it happened that I was on my holidays and was not able to actually get to work until about the 1st of November, so that the report, as now in the hands of the Committee, has been done under rather strenuous conditions, in order as requested by the Minister to get it before Parliament this year. This is my apology for any errors in form which may appear, as the result of searching a great many documents, and continuous writing.

*By Mr. Maclean:*

Q. When did you present this report?—A. The letter is dated—

The CHAIRMAN: The date does not appear.

[Dr. H. M. Tory.]

The WITNESS: I think it was April 4th.

Mr. McMASTER: Is it worth while spending time on that?

The WITNESS: With that interpretation of the functions of the service which I was asked to perform, I began by making a tour of the parts of Canada most easily reached, beginning with my own province of Alberta and coming east as far as the province of Quebec. I did not get to the Maritime Provinces, and therefore, whatever information appears in this document as from the Maritime Provinces is the result of correspondence. I was not able also to get to British Columbia for the same reason, and, therefore, the material I have in regard to that province is the result of correspondence, and a study of documents. After going through Canada, I went to the United States, because the American scheme was especially mentioned in my instructions as the one to be studied. I spent some time at Washington, going over the machinery of rural credit organizations of the Washington Government, and then carried letters with me to three or four of their main banking centres where I was able to observe the actual workings of their plans, and having done that, and having collected all the documents which seemed to be pertinent, and having in my possession all the documents collected in Europe in 1913, I spent some time in bringing together all the material which you find in this report. That will be sufficient, I think, to show the mode of approaching the subject.

Now, while it was especially mentioned in the documents that the American system of credits warranted special study, I thought it wise in order that the subjects might be properly understood to bring together in this document the historical continuity of the whole Rural Credit movement. You will find on page xlv of a list of the sections of the report. Section I dealing with general considerations, merely defines the terms used in this report, and discusses some of the underlying principles. I have tried to avoid technical language and to state the facts in a direct and simple manner. Section II is a study of rural credits in Europe. I have not tried to do more than show the historical continuity, and give a broad outline of the purpose of rural credits in Europe. I do not think we can understand the subject of agricultural credits at all until we have seen what was done in Europe, as the American scheme is a result of the investigations made in Europe in 1913. Under Section III I have presented in brief an outline of methods developed in the British Empire outside of Canada. Section IV, which I am sure you will be most interested in, is intended to present the machinery and the purpose of the rural credit movement in the United States. In Section five you will find a chapter on the local Government situation in Canada, and then some general discussion at the end under Section VI. Now, perhaps I had better take it for granted that this document has not been very carefully studied, and present to you in a general way at least, the main ideas it contains.

The CHAIRMAN: It was only distributed two days ago.

The WITNESS: Now, looking at the subject broadly, my interpretation of the situation is this: there have been two distinct aims in the rural credit movement, as it existed in Europe, and now copied in the North American continent. First to so organize the security which farmers have to offer that a reasonable rate of interest may be obtained and second to secure both long term and short term borrowings on reasonable terms of repayment. It was early seen that the borrower would be greatly advantaged if instead of the individual security there could be substituted an organization dealing with men organized in large units, where there is co-ordination of the credits which are offered. The rural credit movement in Europe began entirely primarily with the idea of co-ordinating the credit of those engaging in agriculture so



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that money would flow naturally—not by forced methods—but naturally into agricultural channels and at reasonable rates of interest. The result was that in the early beginnings of the movement, organizations of borrowers who pledged their unlimited security for the borrowings of all the persons concerned were the first to be established. That is to say, 50 men who were land-owners in a community got together and pledged their total land holdings for all of the mortgage loans of the whole organization, arranged the amount of money which each was to be permitted to borrow, and issued bonds on the markets of the world—of their world at least—for the repayment of these bonds on the basis of security which they could all give. That was the unlimited liability idea and was the first idea behind the rural credit system of Europe. I am speaking now especially of long term or mortgage credit. In Germany where the movement began in 1765 to 1770, after the close of the Seven Years' War, conditions were very much like conditions we have in this country at the present time, or were more like conditions we had two years ago. Money was scarce, and individual borrowing was the method. Men were going bankrupt, large landowners, because of their inability to secure money to carry on their businesses. Some organized scheme of credit was absolutely necessary. There was no desire to force money into unnatural channels, but to create a security which would cause money to flow naturally into these channels. That they succeeded in that in Germany is shown by the fact that 50 years afterwards, when the securities of the towns and cities and the Government of the German States went down, if my memory serves me, when 4's went down to 20, the bonds of these organizations never went below 50; as late as 1920—in this century—the bonds of many of these organizations (The *Landschaften*), which are really mortgage loan companies, their 4's were still being quoted a little above par. I do not know what has happened since 1920, but that will give an indication that money found its natural outlet in those organizations because people who had money to lend were satisfied with the security, and were willing to lend at rates commensurate with the security. At no time since their inauguration, have I been able to find that these organizations could not borrow money as cheaply as a government of a town or city or municipality could borrow it. That has been a result of the co-ordination of credits to enable men to work together for the purpose of borrowing. Now, in Germany, the whole scheme is worked out in the interest of the borrowers. That is to say, the borrowers give all the guarantee, and if there are any profits made, they are made in the interests of the organizations to which they belong. There are no dividends to private investors except fixed interest on bonds purchased. Investors lend the money as they would lend it to a government, and they get the interest; any profits as the result of operation go to the organizations themselves.

In France you find a different state of affairs. The corresponding organization in France, is called the *Credit Foncier*, which is an organization under legislative control with a certain grant made by the government originally to give it a start. I think the total amount was 10,000,000 francs, which were granted to put the *Credit Foncier* on its feet. It is a joint-stock company managed like a private company but its interest charges are regulated by the Government. I mention Germany and France to you because their institutions are types of the two forms these organizations have taken. That is to say, organizations of borrowers in their own interest, therefore, in their regulations, interest charges are made as low as possible; and, the joint-stock company organization, with regulated interest rates.

[Dr. H. M. Tory.]

*By Mr. McMaster:*

Q. By the State?—A. By the State. In France the interest charges cannot exceed 6 per cent of the cost of the money obtained through the sale of bonds. In all these organizations money is raised by the selling of long-term bonds. In Germany the bonds are often non-redeemable; there is no real fixed term when they must be repaid. In France the bonds may run for 70 years. There is a fixed rate of interest in a definite relation to the cost of obtaining money. I have not been able to get information of what the after-war effect the interest charges have been in France. They may be different to-day. I obtained the German information as late as 1920 but I could not get the information regarding France for any later time than I had in my possession, which was 1914. The amortization principle applies in all these cases. That is to say, the re-payments are made on the basis of a certain percentage covering the period of the mortgagor. Generally speaking, it does not exceed one per cent, but in some places it is as low as one-half of one per cent. I think one-half of one per cent would pay a bond in 70 years; one per cent pays it in 35 years. I have not worked out the details of that. However, the main point I want to emphasize is that all the European plans were based on the amortization idea. That is, the debt would be paid for out of the products of the land. If a man mortgaged his land, it was understood he borrowed this money and repaid the capital debt out of the earnings from the land.

The United States Commission was very much impressed with the idea of amortization, and I think they would be inclined to say that the one thing that they brought from Europe that was distinctly worth-while was the idea of amortization, on long term mortgages. In 1916, after a good deal of agitation, the United States Government formed a plan which you will find described in Chapter four of this report.

*By Mr. Maclean:*

Q. On what page?—A. On page lxxvi. "Rural Credits in the United States." I have tried to give a little sketch there of the reasons why the problem became an acute problem in the United States and as I interpreted what happened, it is this; that in the days when lands could be bought cheaply, say at a dollar or two dollars an acre—at first it ranged from one to three dollars an acre—the buying of land was a very simple matter, and if one was fortunate enough to get possession of reasonably good lands with a market for their products, they could hope to pay for that land within three or five years. By 1915 however the American Department of Agriculture stated that 6-7 of all good available land in the United States had been taken up. In the meantime the price of land had risen from its original cost, say \$1.25 an acre—to in some cases \$250 an acre, and clearly the question of paying off the mortgage on lands bought at \$1.25 was entirely different from that on land bought at \$250, unless a man had resources other than the resources of his land. If he had resources that could be made available in a period of time, he might take a mortgage and satisfy it in that period of time, but my judgment of the matter is that almost without knowing it the mortgage situation in the United States became a very difficult one, because of the rapid extension of farming to the westward. There was really not enough money available through the ordinary channels. This was further complicated by the rise in land values and the necessarily large capital investment required by the individual. The result was a better credit scheme became necessary. If you will read pages lxxvi and lxxvii, you will see a little discussion on the way the mortgage business grew in the United States. In 1913 it was estimated by the Department of Agriculture that there were \$3,599,000,000 in mortgages on farm lands in the United States. In seven



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years that had grown to over \$8,000,000,000. That is, in seven years the mortgages on farm land had grown over 138 per cent, which was an enormous increase in the mortgage business of the country. That looks like a very enormous amount, but in 1914 the total amount of farm land mortgages in Germany was about \$2,000,000,000—about  $\frac{1}{4}$  of this. When you remember that Germany is a country of approximately 50,000 square miles—that is, pre-war Germany; it is still smaller now—smaller than Alberta or Saskatchewan, two of our western provinces, much smaller than the province of Ontario, you will see that the rise of the total mortgage indebtedness is not so serious in the United States, when you consider it in relation to the agricultural productive lands of the United States. It is doubtful if Germany has more productive land than great agricultural provinces like Alberta and Saskatchewan, where most of the land is agricultural land. I have discussed, on page lxvii, the various methods by which these credits were obtained, to show the reasons which led up to the establishment of what is known in the United States as “The Farm Loan Board” with its various organizations. At the top of page lxviii I have given the reasons why all the arrangements that have already been created by State Governments have not worked out to the satisfaction of the farmers. I might read this for the sake of bringing it before you.

“With all these agencies at work it would seem that all legitimate claims for money on farm mortgage security would be met.

That such was not the case was due to the following causes:—

(1) The high average of interest rates which prevailed, when compared with the European farmers with whom the American farmer must compete, especially in the newer settled parts of the country, the parts least able to pay.

(2) The excessive costs connected with the making of loans, namely legal costs, commissions, and incidental expenses.

(3) The impossibility of meeting mortgage payments out of production of the land because of the short terms for which the mortgage was made. This is emphasized when the increased cost of the instruments and methods of production are considered.

(4) The knowledge that in other countries schemes of a national character had been found to work well both in the national interest and the interest of the farmer.”

Those are the four reasons which I adduced from many conversations with men who were really behind this movement, as the reasons why they thought it necessary to establish the Farm Loan Board. The Farm Loan Board was adopted by an Act of Congress in 1916. The purpose of the establishment was to create a number of Federal Land Banks. In reality they are not banks in the sense in which we in Canada generally use the term; they are not banks in which you deposit money, and against which you issue cheques. They are banks for the purpose of conducting a mortgage business. Twelve of these banks were established in 12 leading cities of America, and they were established so as to cover the whole country, each one being given a definite part of the country in which to operate. They were not established for the purpose of dealing with individuals. I think that ought to be emphasized. No individual has access to one of these 12 Federal Land Banks. He must reach the Land Bank with an application for a loan through a local organization corresponding somewhat to our local co-operative associations in Canada. That is to say, provision is made for the establishment of 12 banks to cover the country. These banks have under them the authority for the establishment of local associations, the local associations being the initiators of the loans in a given community; and take responsibility for them, the money being supplied

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by the Land Bank System. I have set out on page xcix, in a little diagram, the way these banks function. You will see it there. Now, the American Congress tried to get the same ideas into their system that were behind the German system and the French system. They tried to combine the two ideas into their system; that is to say, the Federal Land Banks are organizations organized in the interest of the borrowers and in a given community a small group of people are formed who are borrowers. They apply to the Federal Land Bank of their district for their money. The Federal Land Bank has the right to sell bonds to find money for the credit of the people located in their district. There is no private money put in the Land Bank in the sense that they sell stock in the bank. The money in there is money obtained at a fixed rate of interest by the issue of bonds, and any profits go to the borrowers themselves to carry on their own institutions. In this, the Federal Land Bank System follows the system of the German *Landschaften*.

*By Mr. W. F. Maclean:*

Q. On the security of a general mortgage?—A. A mortgage of all the property. But the local groups do not, as they do in Germany, take unlimited liability for all their property. If a man wants to borrow \$1,000 he has to buy stock in his local association equal to five per cent of his loan, viz., \$50 paid in in cash and assume responsibility for another \$50. He subscribes \$50 in cash and in case of loss he is liable for another \$50. If he has not the money to buy the five per cent of stock at the beginning, it is taken out of his loan.

*By Mr. McMaster:*

Q. Does he not buy five per cent of the stock of his local organization? I think you said the bank?—A. He buys five per cent of the stock of the local organization. On that he is paid dividends. They have been paying on the average dividends of six per cent.

The reason for the 5 per cent purchase of stock is that while the Government put behind each one of those banks \$750,000 as a security fund; that is, \$9,000,000 in all; a condition was made that the amount of loans at any time could be twenty times as much as the paid-up capital of the bank. To begin with they could loan twenty times \$750,000. In order to keep up the capitalization of the bank, if a man bought five per cent of stock he was really capitalizing his own borrowings, as the \$50 of capital would secure \$1,000 on loan. So the borrower capitalizes his own loan. In addition he becomes liable for an additional \$50 in case losses are made by his association. The local associations are really small double liability banks.

*By Mr. W. F. Maclean:*

Q. Is there an unlimited supply?—A. No, but so long as the land values are in accordance with the appraisal that the official appraiser puts upon them, any bank can build up its loans indefinitely, depending upon the borrowings asked for. It really depends on the number of individual demanding loans.

*By Mr. Hughes:*

Q. When a loan is paid off, is the capital paid back?—A. It is paid back and all liability to the association ceases.

*By Mr. McMaster:*

Q. Does not a bank sell bonds to find the money?—A. Yes, but that is a different transaction altogether. All of the twelve banks were authorized to make loans at not more than six per cent, and to charge not more than one per cent above the cost of the bonds sold to get the money; so that bonds can never be sold at a greater cost than five per cent. If they can sell for four and



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a half per cent, they can loan at five and a half per cent; one per cent being allowed for the transaction of the business. Now, it was found very soon after the whole scheme was inaugurated that to compel those twelve banks, which are really separate corporations working without mutual responsibility, to lend money at the same rate of interest all over the American continent was inconsistent with the idea that each was to operate in its own sphere, because money costs more in some localities than in others. So the mutual responsibility between all of the twelve banks was ultimately established; that is to say, they were all brought under one common responsibility, each for the debts of the other. The Farm Loan Board has a supervisory relation to the twelve banks. It organized a selling agency with some of the great bond houses in the United States, and these with their central organization do the selling of the bonds. They have sold approximately \$800,000,000 worth of bonds. The figures are in this report. They have sold them mostly in the Eastern States with the result that they have been able to get money to lend all over the country at the same rate of interest. On page xcix of the report you will find it set out;—twelve Federal Land Banks capitalized at \$750,000 plus the five per cent loans. These are approached either through the five thousand local associations or through agents in special cases. The farmers' access to them is through any of the local associations. In some cases, where associations have not been formed, he can reach them through agents, but in every case the agent takes the responsibility for the debt to the Federal Land Bank. If the agent is a trust company and if the Board lends money, through it as an agent it must assume responsibility to the Federal Land Bank for the loan. It is allowed one half per cent extra interest for doing that. So far, the American scheme of a federal land bank is the German *Landschaften*. The eighty joint-stock banks, referred to on page xcix of the report, which function through the Farm Loan Board corresponds somewhat to the *Credit Foncier*. They arranged for the organization of joint stock banks into which private money would be put and which would have certain extra privileges in loans to individuals. The farmer may approach one of these banks directly as he would approach a private corporation. The only precaution is that the interest rates are fixed and the Farm Loan Board give their sanction to the sale of bonds of those banks. But they have nothing to do with the finances of the bank. The joint stock loan banks make profits for their stockholders.

*By the Chairman:*

Q. Where do they get it?—A. By subscribing at least \$250,000. The capital is subscribed and they raise additional money by the sale of bonds; one per cent being allowed. They are privileged to do other kinds of business as well.

*By Mr. McMaster:*

Q. Am I right in my recollection that many of those eighty joint stock companies are institutions which were in the line of rural credit prior to the formation of the Farm Loan scheme, and were allowed to come in on the understanding that they would allow their interest rates to be regulated by the Government?—A. I cannot say to what extent that has been worked out. These institutions have to conform to the regulation of the interest charges like the *Credit Foncier*, which is the real secret of their position. They are to-day doing a very large business.

*By the Chairman:*

Q. Are they limited to eighty?—A. No, but they must have \$250,000 of paid up capital before they are allowed to do business at all.

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*By Mr. Hughes:*

Q. Have any of them got into financial trouble at all?—A. None of these.

*By Mr. Shaw:*

Q. Is the control of the interest rate effective?—A. Absolutely.

Q. We cannot do it in Canada, and I was wondering how they did it there?—A. They have to sell their bonds through the central agency, and they cannot sell a bond otherwise. Furthermore, they are under very definite regulations.

Mr. W. F. MACLEAN: Because the credit of the whole country is behind the thing.

WITNESS: May I just say this about the credit of the country. These organizations have no guarantee from the Government of the United States other than the fact that it gives them \$750,000 to begin with, and already they have paid back in profits made in the business \$7,000,000 of the total \$9,000,000 that was loaned originally. The United States Government has written into every bond issue, in so many words, that these bonds are not guaranteed by the United States Government.

*By Mr. Irvine:*

Q. Do you think it would be practicable for the Government to discount the collateral of those societies. Would that not be equally effective, and at the same time save a great deal of unnecessary expense?—A. You are speaking of the intermediate credit; I am talking of the long term credits.

Q. No, the long term credits?—A. Based on thirty years' experience, I do not think you would get any banking system in the world to so discount with moneys used for current business.

Q. I mean the Government?—A. For the moment, all I can say is that the Government has not done it. The Government scheme has been to allow the farmers to organize in their own interests and to put their security on such a basis that they can get money cheaper. That money flows into the channels for their credit as it flows in ordinary business channels. That is what the Government is seeking to do. On page lxxxviii you will find what has been loaned. The Federal Land Banks, those organized in the interest of the borrowers, have \$865,000,000 worth of bonds outstanding, while the Joint Stock Land Banks have \$360,000,000 worth of bonds, not quite half as much as the others. I call attention to this fact that no effort has been made to monopolise the interest of the country by these mortgage loaning corporations, the Landschaften or the Credit Foncier. All they have tried to do is to do a sufficient amount of loaning as to have some regulatory influence upon the interest charges of other organizations. In 1914 about 40 per cent of the farmers' loans in Germany were held through these organizations and the balance of 60 per cent was held by private organizations of various kinds. I do not think there is any doubt that the 40 per cent practically regulates by competition the interest charges. In the United States today these two organizations, the controlling organizations, have about \$1,300,000,000—I have the figures up to the 24th February—of the total \$8,000,000,000. That is about 16 per cent, a good bit short yet of the German 40 per cent. But there can be no doubt that already these joint schemes are having a definite regulatory effect upon the interest charges made, particularly in the good localities. So far as long term loans are concerned, these are of two types. They have the principle of the private corporation with the principle of the public corporation, and they have given them sufficient government support to start them. But they have not given them any guarantees other than that. I think it would be safe to say this—and this is a statement made by several officials of the Government—that there is a feeling in

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the United States that these organizations having been called into being by the Government, and having first a supervisory protection by the Government and second, protection of the goodwill—there is the feeling that the Government having called them into being could not allow them to be destroyed without going to their rescue.

*By the Chairman:*

Q. When you say that these corporations have been created by the Government, do you speak of the Federal Land Banks or of the Joint Stock companies as well?—A. I speak of both, both having been called into existence by special legislation promoted by the Government itself.

*By Mr. W. F. Maclean:*

Q. Legislation which widened the term “bank”?—A. Yes, they are using the term “bank” in the European sense that we have been accustomed to use very much on this continent.

*By Mr. Garland:*

Q. Do you say that the Joint Stock Banks were called into being by special legislation?—A. They were brought into being by the general Farm Loan Act originally.

Q. Could it be called special legislation?—A. What I mean by special legislation is that in the same legislation which created the Federal Land Banks authority was given for the organization under the Farm Loan Board and of these Joint Stock Banks. Of course, the initiative had to be taken in the latter case by individuals.

*By the Chairman:*

Q. I think the Committee would like to have that point cleared up. What some of the members have in mind is that these Joint Stock Banks could have existed before but some of them adapted themselves to the new scheme?—A. Yes, so long as they conformed to the new law.

*By Mr. Garland:*

Q. It was simply a case of conforming to the law?—A. Exactly.

Q. It was not done by special legislation, they were in existence already?—A. Not necessarily. Many of them were brought into being under that legislation, and new organizations were started.

*By the Chairman:*

Q. But many of them were in existence, and they simply adapted themselves to the new scheme?—A. Yes, there was a reorganization in some cases in order to conform to the law. Perhaps I have not made the point clear. In one Act were created the Federal Land Banks to assist all borrowers. The possibility of Joint Stock Banks, without mentioning any number, conforming to the same law in regard to interest charges was also authorized. It was left entirely to private initiative to bring them into being. The aim was to embody the two ideas of the Credit Foncier which gets private money, and the German system in which all the money is provided in the sense of its being done in the interest of the people who borrow.

*By Mr. W. F. Maclean:*

Q. They have to conform to the rate of interest?—A. Yes.

*By the Chairman:*

Q. Is the capital of \$250,000 the minimum or the maximum?—A. The minimum.

*By Mr. Hughes:*

Q. Are the bonds issued by these corporations subject to income tax?—A. No. I am coming to that in a moment. Broadly speaking, that gives you an outline of the scheme, but if any points in the general plan are not clear, I would be very glad to answer any question now. If any one would like to raise the question of organization, I have not gone into details, even in the report as to how the appraisals of land values are made. It is all fixed by law. I have the documents.

*By Mr. W. F. Maclean:*

Q. Would you tell us when the foreclosures come to be made how they work out?

The CHAIRMAN: I think the witness should be allowed to carry on.

WITNESS: Naturally when these banks get into operation they begin to make loans very rapidly. Approximately—I can only give an approximate figure—60 per cent of the loans issued under the Federal Farm Loan system were repayment loans; that is to say, loans taken up from other companies and taken on under the new system.

*By Mr. Sales:*

Q. Clearing up old mortgages?—A. Yes, clearing up old mortgages and old indebtedness. That is specially true in the last few years when the indebtedness has been the refunding of old credits and debts, and bringing them under one central organization. The majority of these loans have been issued on a thirty-four years' amortization scheme. If you turn to page lxxxiii you will see an illustration of the way in which these loans are repaid. Where the interest charge is five and a half per cent an amortization rate of one half of one per cent is added for the repayment of the debt. That wipes it out in 69 half yearly payments, or thirty-four and a half years. The general recommendation that I received from the people who are administering these banks in the United States was that 35 years was a bit long. I think that they would on the whole prefer to see a 20 year amortization scheme instead of a 35 year amortization scheme. That seems to be the general idea. In regard to the way in which amortization works out, in certain cases they have had to foreclose; but I was informed at Springfield and Baltimore that they did not lose the total loans, that the losses did not exceed \$1,000 in these two banks, due to foreclosure. They had to foreclose in a certain area but they had been able to sell the lands to cover the indebtedness. I could not get the figures of the principal foreclosures in the Northwestern States. The bank at St. Paul which covers Michigan, Wisconsin, Minnesota and North Dakota, was having a good many foreclosures up to the time I had my discussion with them, but they did not consider that they were in danger of suffering heavy losses.

*By the Chairman:*

Q. Are they strict in making foreclosures?—A. They have been foreclosing. Now, you would think that with this new machinery created people would have been satisfied that at least there was a comprehensive machinery for the purpose of carrying on the business of the country; but instead of that some States of the Union have gone into competition with this Farm Loan Board; and here, it seems to me, is where we should pause and think carefully about any plan we may put into operation. In Minnesota apparently the legislature believed that the Farm Loan Board was too slow in its operations; that it took too long to get the loan made. They informed me that that was one of the reasons why the Minnesota legislature authorized a Farm Loan Board last year based on exactly the same idea and it is now operating a farm



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loan system of its own on the same territory and I might almost say across the street from the Federal Farm Loan Board. Here is a point where we might have further discussion, the point as to the wisdom of competition in these schemes. The aim of these organizations has been to get an effective competition by one piece of machinery that would act effectively in competition with private corporations, with no desire to put private corporations out of business, but simply with a desire to so co-relate credit that you will get such security as trust funds into the mortgage business. Apart from that, any competition, to my mind, is just wasteful competition. It means that so many more people are being paid out of the profits that come out of the business.

*By Mr. W. F. Maclean:*

Q. There must be a number of private companies going out of business under this competition?—A. With \$8,000,000,000 worth of business, and with the business rapidly increasing—probably in the next ten years it will go up to \$16,000,000,000—there is still room for private corporations to operate. What has happened is that some of the large companies in the United States have gone into the amortization scheme; they are now lending money on an amortization basis. I think I might emphasize once again the points in regard to the purchase of land at low prices. Take land in Western Canada in the days of good things. Land bought at \$10 an acre could be paid for in two or three years, but land bought at \$75 an acre cannot be paid for in that way. The whole idea of the amortization scheme is to enable a man to pay his current obligations from the income of the property. Even that land bought at \$75 an acre can be paid for in three years by amortization. There must be some relation between the income from the property and the amount a man can pay. Of course, there is something to be said for the ability of the man himself. In the Northwestern States—I have not the exact figures, but the statement was made to me—they have not been forced to sell lands below an amount sufficient to cover the mortgage charges against the properties.

*By Mr. W. F. Maclean:*

Q. The amortization is the next great value in this scheme?—A. Amortization and regulating the interest; these are the two.

*By Mr. Kellner:*

Q. What if the land should increase in value?—A. If the farming business has to be carried on on a basis of increased land values, it is not a business at all.

MR. W. F. MACLEAN: It is speculation.

WITNESS: It is speculation wholly.

*By Mr. Sales:*

Q. You would not say that many farmers have been able to carry on because of that?—A. I do not think that farming operations are carried on by that fact; speculation is carried on by a rise in prices. But I do not think it would affect the ordinary farming operations materially. It would of course increase a man's wealth and enable him to purchase machinery—

*By Mr. Garland:*

Q. And it would enable him to get more credit from the bank to carry on?—A. Yes. That is the assumption on which the scheme is based. It is based entirely on the assumption that the debt will be repaid out of the normal production of the land; that is, the whole European system is based on that idea.

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*By Mr. Maclean:*

Q. And farming is a failure if it is not done?—A. Yes. The rise in land values makes his credit good, but so far as production is concerned, it does not help him.

*By Mr. Spencer:*

Q. And it makes his taxes higher?—A. Exactly, it makes his taxes higher. That is the mode of approaching the loan system. You would have thought that that would have been a satisfactory solution of the difficulty, but I would like to point out one or two reasons why it has not been satisfactory. In my judgment the real reason that the Federal Loan system has not been entirely satisfactory in the United States is that a great body of farmers in the North-western States particularly where the value of property is not sufficiently good at present are unable to give a 50 per cent basis on which borrowings can be made. The system is elastic enough to cover the whole country but it is not elastic enough to cover the man who has no security to offer. That is what is agitating the people in the United States—

Mr. W. F. MACLEAN: And in Canada.

WITNESS: And in Canada.

*By the Chairman:*

Q. Is the basis of the value their own valuation or the municipal valuation?—A. The lands are valued in this way: The first valuation is put upon it by a valuing committee of the local association. When their value is sent in to the bank, the bank sends out its own appraiser. That appraiser is paid by the Federal Government of the United States, and the loan is based on 50 per cent of the value he puts on the property. Many statements have been made about the repayment of those obligations. I found this, that generally speaking, there was a tendency in the beginning for people to overvalue their land. A group of friends would get together, and naturally they do not like to diminish the value of their neighbour's land. That is why an extra appraisal has been found necessary. There was a disposition to feel that this was Government money and therefore they would get every advantage out of it. A good deal has been said about that, but I found this—taking the bank of Springfield—that the way they had gone about the education work connected with that particular phase of it was that they tried to sell the bonds all over the country, in the smaller communities, so the people would see it was money of their neighbours that was being loaned, and was not the money of the Government, but rather the local machinery that their friends and neighbours were putting into operation. They saw this very promptly in the eastern states, and in the western states the same thing took place. It so happened in some of the northern states, North Dakota for instance, that there had been a disposition to refuse loans to men only engaged in the growing of wheat. They are willing to lend to men in diversified farming, but wheat growing has become such an expensive proposition, as shown by the report of the Commission of the United States, where they claim it costs \$1.22 to produce a bushel of wheat in North Dakota, that the loan companies were refusing to loan to men who are merely growing wheat.

*By Mr. McMaster:*

Q. Was that not the Commission which said it cost 70 cents to grow wheat in Canada?—A. They said 62 cents, north of Edmonton. I think that it should be mentioned as a fact that this is having a considerable effect on the minds of these loan organizations to-day, that wheat farming has become so expensive in the United States, due to the falling-off of yields of wheat and to the uncer-



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tainties of the crop, that there is hesitancy in loaning the money to men who say, "I won't keep cattle, or I won't go into diversified farming."

*By Mr. Sales:*

Q. Dr. Tory, I presume you have noticed this is all being reported, and you do not wish to be incorrectly quoted. You do not say yourself that the figures of 60 cents a bushel is a fair valuation of the growing of wheat in Canada?—A. No, I simply say the statement was made officially by the United States Commission who went to Canada and the northern states to collect information in order that the tariff might be established, and they fixed \$1.22 as the cost of raising wheat in North Dakota, and I think they fixed 60 cents as the cost in Northern Alberta.

Mr. McMASTER: 72 cents is my recollection, and they made a comparison in the cost of production of wheat in the United States and Canada, making a difference of some 42 cents, and they jacked up their tariff by some 30 or 35 cents a bushel.

Mr. SALES: You had better put yourself straight on that.

The WITNESS: I was only quoting.

Mr. GARLAND: In your opinion, is the cost of 60 cents high or low?

The WITNESS: I think it is very low. That is only my opinion. We raised a little wheat at the University farm, and I would say that was a very low figure.

*By Mr. Sales:*

Q. How much did it cost you there?

Mr. McMASTER: I think the witness should decline to answer that question under advice of counsel.

Mr. COOTE: I will ask a question now, although probably you will prefer to answer it a little later on.

Q. Can you give this Committee any idea of what percentage of the farmers in the northwestern states are in the position which you mentioned, where they have not the necessary security to secure a loan under the Federal Farm Loan System?—A. I have not the figures that will give me the exact information, but Secretary Wallace in his report to Congress said that there were over 100,000 farmers a month leaving the farms of the United States because they could not carry on farming.

Q. But you cannot give us any approximate idea of the percentage?—A. No. I have tried to get that information. In the same report Secretary Wallace said that 15 per cent of the farmers in the western states were bankrupt. If you will allow me I can get you the exact information on that. I have the document, and I could get the exact statement on that.

The CHAIRMAN: You might say in a general way whether the system has proved to work effectively.

The WITNESS: I would say that I did not meet a single member of the Administrative Board of these organizations who did not claim they were effectively working the machinery in the country. They had regulated the business, and had opened up channels for the flow of their moneys which would never have flowed into agriculture at all.

*By Mr. Coote:*

Q. You would say then, Dr. Tory, that even in the northwestern states this system has resulted in keeping a number of these farmers on their farms?—A. I do not think there is any doubt about that at all.

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*By Mr. Maclean:*

Q. And therefore, the whole thing is beneficial?—A. I do not think there is any doubt about that. I do not know what would have happened if there had not been such a scheme in operation. May I quote these figures? Under the Farm Loan System there has been loans, up to the 28th of February, from St. Paul one of the centres, just over \$104,000,000; from Omaha, as a centre, \$97,000,000; from Spokane, \$87,000,000; and from Columbia, \$78,000,000; and New Orleans, \$74,000,000. I make this general statement here: "Every state in the Union of Porto Rico have received financial assistance from these banks in amounts varying from \$254,000 for Delaware, to \$93,000,000, for Texas." I am quoting the individual states. The state receiving the most money from organizations of this kind has been the state of Texas, \$93,000,000. I might at this point, if it is agreeable, take up the other side of the Farm Loan Bond Business, the intermediate credit banks, and say a word about them. The call for better farm loans, what we call intermediate, which is the term that is used, or short term credits, began in the United States a good many years ago, and many of the State Banks were organized for the express purpose of meeting that problem and taking advantage of the financial possibilities of business that was offered by a better system of farm credits. The whole system that grew up into the Federal Reserve Board worked out along the line of extending and simplifying credit, with a view to probably better financing the smaller banks in the country, to make it possible for the smaller banks to operate better than they were doing at the time. The real difficulty, as I see it, was the difficulty of the decentralization of the reserves of the banks, and the impossibility of getting them to flow rapidly to a point where the money was needed. So the Federal Reserve was brought into being for the purpose of co-ordinating the banks and their assets into some common fund which could be distributed as required by localities. At first the ordinary three months' loan discount was all that was allowed as an ordinary banking transaction. That was afterwards extended to six months, but the whole matter was re-adjusted in 1923. It was considered the Federal Reserve was not meeting the necessary conditions of agriculture, because still its terms of loans were too short. I am speaking of the ordinary short term credit, and not the mortgage credit. The agitation which led up to the establishment of the intermediate credit bank—which I will speak about now—in the United States, grew out of the belief that the Federal Reserve Board could not be made to satisfactorily function from the point of view of the farmers' operations. That is to say, the terms of loans were still too short. Up until 1923, six months was the limit; it has now been extended to nine months, and I think, because the Federal Reserve Board extended it to nine months, in all probability it will have an effect upon the growth of the intermediate credit banks. In March 1923, the Government of the United States undertook to establish in co-relation with the Federal Land Bank, intermediate credit banks. They authorized the establishment of 12 intermediate credit banks at the same points where the Federal Land Banks were organized, and under the same administration. The business is kept entirely separate. These 12 banks were organized shortly after March, 1923. The Federal Government placed at their disposal \$5,000,000 each; that is to say, they took the authority to capitalize them at \$5,000,000 each. They arranged that they would have the right of issuing bonds up to 10 times their capital; in other words, they can ultimately loan up to \$660,000,000—that is, the total group of banks. These were made from the very beginning mutually supporting, though each did their business separately, but each is responsible for the debts of the others. The moneys made go into the Treasury of the United States ultimately, after they have repaid their

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original indebtedness. They are allowed to issue bonds for terms not exceeding five years, depending upon the length of time they make their loans. They are authorized to make their loans up to three years—from six months to three years; that is the longest term they are allowed to make a loan for.

*By Mr. Spencer:*

Q. What is the rate of interest, Dr. Tory, which is charged by the Government?—A. The same rate as the Land Banks.

*By Mr. Hughes:*

Q. On mortgages?—A. Yes, up to six per cent. The security is the ordinary security. Money can be borrowed on farm produce—that is non-perishable produce—but here again they do not look to individuals. The individual must get his money from the local bank. This is only a rediscounting agency. A man must get his money through his ordinary bank, and there again the interest charge is fixed; it must not exceed one per cent above the rate fixed by the bank; in other words, not over seven per cent. The bank is allowed six per cent, and the re-discounting agency is allowed one per cent over that. The details are worked out in this report.

*By Mr. McMaster:*

Q. Where the bank charges more than six per cent is not the intermediate bank allowed to charge more?—A. If the bank charges more than one-half per cent above that allowed by law—let me repeat that, a bank can loan money at six per cent, and the re-discounting agencies cannot loan it at more than seven per cent. If they loan it at more than seven and a half per cent the whole debt is cancelled. There is a tremendously rigid law in respect to that, regarding these particular organizations. They are under governmental control and have the benefit of government supervision.

*By Hon. Mr. Stevens:*

Q. It is not obligatory for the bank to loan money?—A. No. May I repeat that again. There has never been any effort in this scheme to force anybody to loan money who did not want to loan it. The purpose has been to simplify and strengthen the credit of the borrowers so that money will flow normally into these channels.

*By Mr. Garland:*

Q. Will you repeat again for the purpose of clarifying, the statement you made with regard to the penalty imposed in regard to the rate of seven and a half per cent or more being charged?—A. Might I ask you, in order that there may be no mistake, to cancel my statement, and let me give it to you once again in exact form. I see there is a good deal of interest in that. It is printed in this document and I would not like to quote the details from memory.

Mr. GOOD: Is it at the bottom of page xciv and the top of page xcv?

The WITNESS: That is not it, Mr. Good. The penalty is what I want to get at.

Mr. McBRIDE: Page xcvi—the middle of page xcvi.

The WITNESS: No, that is in regard to agricultural corporations. That is not the point.

The CHAIRMAN: I think you have it at the top of page xcv.

The WITNESS: Yes, that is it. Let me read it, and we will get it straight.

“With regard to the rate of interest charged, definite restrictions are placed upon it. The maximum rate at which debentures may be

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issued is fixed at six per cent, although the Farm Loan Board is given the power to determine whether it shall be lower than that, while the bank itself must not charge a rate of discount of more than one per cent in excess of the last debenture issued. This fixes a maximum of seven per cent on discounted paper. In discounting paper for such organizations as shall be described hereafter, the Federal Intermediate Credit Bank is not permitted to discount for any borrower who charges a rate of interest of more than one-half of one per cent above the discount rate fixed by the Intermediate Credit Bank. The bank is permitted to purchase in the open market at par, or below, its own debentures before maturity."

There is another statement besides that. I will find that and put it in the records.

Mr. MILLER: Has that any effect in frightening away desirable capital?

The WITNESS: May I say a word leading up to that? This is based on a security of \$60,000,000, which the Government has put into the banks; they have been selling at about the same rate of interest as the bonds raised for mortgage purposes. Whether they will continue to do that if the amount goes very much beyond the Government's guarantee is a question that is difficult to answer. For the moment they have no difficulty in getting all the money they want. In answer to the question of my friend here (Mr. Hughes) which he asked a moment ago, I will say that one of the reasons for that is that all of these bonds are tax-free bonds. I do not find a single man in the United States who justified the tax-free bonds in the United States.

*By Mr. McMaster:*

Q. Will you please repeat that again?—A. I did not find a single man in the United States who justified tax-free bonds in that country on theoretical grounds, but this is the argument made by many men who are doing a farm loan business, that as long as all the states and all the cities are allowed to borrow their money with their bonds tax-free, agriculture should have the same privilege. That is the position they take, that there is such a wide scheme of tax-free bonds in the United States that the Farm Loan Board say "We do not see why we should be deprived of this privilege," but on the merits of the case I found nobody who justified it.

*By Mr. Maclean:*

Q. Is it the tendency here for the rich men to accumulate these bonds?—A. If privileged, may I answer that without it appearing on the record?

The CHAIRMAN: Yes, certainly.

Mr. McMASTER: Human nature is the same on both sides of the line.

(The answer given by the witness to the question of Mr. Maclean was not reported, by order of the Chairman.)

The WITNESS: I do not mind being quoted as expressing an opinion, Mr. Chairman. As a matter of fact I have quoted it in this document, that there is no doubt the well-to-do are getting the benefit of it, and that is a fact that is made possible by the rapid sale of these bonds.

*By Mr. Hughes:*

Q. Are these bonds on the Trustees' List?—A. Yes, they are; trust funds may be put into them.

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*By Mr. Sales:*

Q. Did you arrive at any conclusion, Dr. Tory, as to whether that would be necessary in Canada?—A. The tax-free bonds?

Q. Yes?—A. Conditions in Canada are entirely different.

Q. In order to make money by this course?—A. I have not thought about it enough to give you an answer to that. I think it would make money flow into it, without question. They were able to sell in Baltimore \$50,000,000, in two hours, I think it was.

*By the Chairman:*

Q. Are the issues of these 12 banks made separately or by a central organization issuing over the 12 districts?—A. They are made by the central organizations, but they bear the name of the district for which they are issued.

Q. And do they bear mortgages in that district alone?—A. I cannot answer that question directly, but I can in another way. The actual mortgages of all the banks are responsible to each other, but whether as a first call it is only against mortgages of the locality—I would have to look that up. There is an indirect responsibility, if not a direct one.

*By Hon. Mr. Stevens:*

Q. The discounting of this paper by these intermediate banks is contingent upon the endorsement of the local private banks that offer it for discount?—A. Yes, it is contingent upon the endorsement, and a first charge. The Federal Intermediate Banks do not look to the individual for the debt at all; they look to the bank. But I found this in the northwestern states where the banking conditions are very bad, that a bank assures itself that the original borrower is responsible. In other words, while it looks to the smaller bank to pay the debt, it takes the precaution of being sure that the individual is worth the money. I have set out on page xcix in diagrammatic form the relations in these Intermediate banks to the other banks of the system and you will see that these institutions do not deal directly with the individual, but there are three methods of approach; he may approach through the small bank, or a trust company which takes responsibility for the loan, or through the National Agricultural Credit Association, for which authority under the Act is given. These correspond to the small agricultural banks for the purpose of dealing in agricultural paper. These banks must have \$250,000 capital, fully paid up, before they are allowed to do business. These are given very, very special authority, but the point about it all the way through is that apart from the joint-stock banks where the individual who wants to borrow is permitted to deal with a private organization, he must deal with his local organization. All the way through this organization, the machinery does not reach the individual except by this means.

Q. And the conditions of the loan and the rates of interest are the same as regards the farmer, whether he goes through the organization or his stock bank?—A. Yes. That is all arranged. Perhaps, Mr. Chairman, if any one has a question to put, I could answer it on this general organization, as I take it it is the American System which you are most interested in.

Moved by Mr. Coote, seconded by Mr. Garland, that the Committee do adjourn until 8.30 p.m., to-night.

Motion agreed to.

Witness retired.

Committee adjourned.

## AFTERNOON SESSION

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m, Mr. Vien, the Chairman presiding.

The CHAIRMAN: Dr. Tory will go on with his statement.

Dr. H. M. TORY recalled.

WITNESS: Mr. Chairman, I looked up the items that I was in doubt about this morning. With regard to the interest charges, I made just one error. If you turn to page xcix of the report you will see that the farmer operates either through the small bank, the National Agricultural Credit Association, or a trust company, some agent. The interest charges of the small bank, that is, the State banks under this Act, about which we were speaking, would be regulated by State law. That is to say, nearly all the States have laws regarding interest charges, and these interest charges would be regulated by the State laws. It is the interest charged made by the National Agricultural Association to which I had reference this morning, and you will find a statement about it on page xcvi. I will just read it.

"With regard to interest rates, it must submit to the laws of the state in which the corporation is located. A special penalty is imposed, should at any time, or by any means, direct or indirect, a rate of interest be charged greater than that allowed by the state law. If this is knowingly done, the corporation forfeits the entire interest of the debt and has no power of collection and further, the person who was charged the interest, if paid, has the right to recover in action twice the amount of the interest thus paid to the corporation, provided legal action is commenced within two years—a very definite and rigid provision."

You will find on page ci the other statement that we had some doubt about. This is my own comment but the figures are taken from the official report.

"In the meantime, there is a great exodus from the land to the cities, especially in the above mentioned states. In his report to the President on the matter, Mr. Henry C. Wallace, Secretary of Agriculture for the United States, stated that over a million people left the land in 1923. Recently, representatives of a number of the leading farm organizations in the United States have published an open letter to 'the President, the Congress and the people of the United States', in which the statement is made that farmers were forced from their homes during 1923 at the rate of 100,000 per month and 'the process still is under way in all its cruelty'. 'Country conditions', it is said, 'cannot be told in words. The hundreds of broken banks are real, but the suffering which followed them is hidden in the haze of distance. Unceasing toil of millions of people, futile attempts to protect family and property is lost without recognition. The reason for all this remains unchecked, although it has existed for five years.'"

*By Mr. W. F. Maclean:*

Q. These are people, apparently, who cannot be reached?—A. In spite of what has been done, that is the statement still made concerning the people of the Northwestern States.

Q. But the system will relieve them?—A. A paragraph further up on the same page will show what steps are being taken.

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"In spite of all that has been done to provide credit, great distress still prevails, especially in the western and northwestern states. As none of the larger organizations under Government auspices are permitted to deal directly with the individual, an effort is now being made to find a more direct way to help, especially in assisting those in the grain growing areas, who wish to develop diversified farming. A bill to grant \$50,000,000 for this purpose was recently defeated by the Senate of the United States. The President has appealed to the Chairman of a new financial organization known as the Agricultural Credit Corporation, capitalized at \$10,000,000, to undertake the responsibility of individual loans, suggesting that under proper regulations, the War Finance Corporation would be willing to make substantial advances for the purpose."

In other words, the way is being sought at the moment in the United States to reach the people that we have been speaking about that are out of reach of the ordinary credit facilities based upon business security.

*By Mr. W. F. Maclean:*

Q. What is the War Finance Corporation?—A. It was created first for the financing of the war, and in 1921 it was given the task of financing agriculture. There is a short paragraph on that in this report, on page xeviii, at the bottom.

Q. It is still in existence?—A. It was to have gone out of existence on the 28th February this year, but on account of this difficulty that we are now speaking about, the time has now been extended to the 31st of December.

*By Mr. Sales:*

Q. Why that sentence "especially in assisting those in the grain growing areas who wish to develop diversified farming."—A. It is specifically mentioned because of the effort in Congress to pass Acts to help those who wish to develop diversified farming.

Q. Do you think that would solve the situation?—A. I am coming to what the United States people are trying to do. They are not lending money to grain growers only, they are lending to grain growers who are willing to go into diversified farming. They are the only people who are getting money now.

*By the Chairman:*

Q. Would it be right to say that they object to advancing money unless guaranteed repayment and that they consider the wheat farmers do not offer at the present time that security?—A. That is exactly the situation.

*By Mr. Sales:*

Q. And it is the price of the other products which offer the security?—A. All the persons who are making recommendations to the farmer, and these recommendations to the Government are recommending it on that basis.

*By Mr. W. F. Maclean:*

Q. And they have knowledge of the farming conditions there?—A. Yes. May I say that Dr. Coulter, the Head of the Agricultural College at North Dakota, who is probably one of the most competent authorities in America—I know of no man who is more competent to speak about this subject both from a point of view of services performed, and from experience—says that this proposal of \$50,000,000 was to be used in an attempt to get the farmers into diversified farming.

*By Mr. Coote:*

Q. That was defeated in the Senate?—A. Yes.

*By Mr. Sales:*

Q. But take the farming conditions in the country to-day, with eggs at 15 cents or 10 cents a dozen in cases, and butter so low, and the price of beef being where it is, a man in the cattle business is worse off, or at least as badly off as the wheat grower, and I doubt whether that really settles the matter.—A. You doubt whether this is the solution? There is no question about their trying to make it a solution.

*By the Chairman:*

Q. The point, so far as I can judge, is not as much whether it is sound or not, but it is actually a fact that in the United States to-day, whether rightly or wrongly, they consider that the diversified farmer is the only one who can receive assistance under that system.

*By Mr. Coote:*

Q. Does it necessarily follow that even if this were the proper policy of the United States the same thing would necessarily apply to Canada?—A. Not necessarily.

Q. How long have these people being growing wheat in the States of North Dakota and Minnesota?—A. I should say about 30 or 35 years; many of the men who are the old farmers in North Dakota are in a perfectly sound position in spite of their losses, but during the War people were pushed out into the northwestern part of North Dakota; there are some people who have not paid for the first seed grain, after seven years of trial, and whole blocks of the country are being wiped out, and for such people the best thing, according to Dr. Coulter, is to get them started, so they can begin to live.

Q. It would be better if they would move off?—A. If they can get something else to do.

*By Mr. Sales:*

Q. They were tempted during the War, by the high prices of wheat, to take up wheat-growing on land which is not suitable for such an industry?—A. Yes. In this report, at page cii, I made the following statement:

“In reality, there are two causes, one of which is touched upon in the foregoing quotation, viz., the disorganized state of the world markets, resulting from the world war and the inability of Europe to feed herself at the American cost of production. The second cause, however, is found in the fact that during the war, the high prices of products led to the purchase of land under conditions which made economical cultivation impossible in normal times. This was further accentuated by the agricultural development of areas for cereal crops, hitherto unused and wholly unsuited for the purpose.”

I would respectfully suggest, Mr. Chairman and gentlemen, that there is a lesson here for us.

*By the Chairman:*

Q. What do you mean when you say, “The condition under which land was purchased”?—A. The price paid and the quality of the land. I am not sure whether I am quoting this accurately, but as a matter of fact within three or four months land jumped in the State of Iowa from \$150 to \$450 and \$500 an acre, almost entirely due to land speculation.

Mr. Goop: Mr. Chairman, it might be of interest to the Committee to state that last September I had a long talk with Dr. Coulter about this matter. He had just completed a tour of investigation through the wheat-growing part of



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the United States, and I formed the opinion that he was well qualified to express an opinion on this subject.

WITNESS: There is no question about Dr. Coulter's qualifications.

*By Mr. Coote:*

Q. In your investigation of the United States, Doctor, did you find a tendency among the financial men there to minimize the seriousness of the condition of the farmers in the western states?—A. I did not find any such feeling in the western states. I was at three bank organizations, one of the large National Banks, one under the Federal Board management, and also the Head of this Farm Loan System, and I did not find any disposition to minimize it by these men. They were wondering what would happen next. Here again I have a little delicacy in quoting things from the United States which go into evidence. They gave me information in a friendly way, which I used to formulate the documents rather than go into details.

(Whereupon at the direction of the Chairman, the balance of the answers of the witness was not reported).

*By Mr. Sales:*

Q. As I have gathered from your remarks, it is the high cost of production—of everything the farmer must buy—A. I will read you a few lines from the preceding page, page ci of the report which gives the remedy suggested by some agricultural organizations in the United States.

“The cause is evident. A disordered world emerging from the war and handicapped by man-made barriers across channels of international trade proves unable to absorb the surplus production of our farms and our industry at prices commensurate with American standards. An elaborate structure of economic protection is provided for industry and labour but it does not reach the farmer.

The remedy is as obvious as the cause. It rests in the application of effective protection of the farm equally with those of other industry. The establishment of domestic markets for farm crops on an American basis, apart from world conditions, to conform with like markets already provided for American manufacture and American labour.”

Mr. SALES: Go on a little further.

WITNESS: Yes, this is my comment on it:

“The remedy proposed is that the United States should shut herself off from trade contact with the outer world. This would appear to be the remedy of despair. In reality, there are two causes, one of which is touched upon in the foregoing quotation, viz., the disorganized state of the world markets, resulting from the world war and the inability of Europe to feed herself at the American cost of production. The second cause, however, is found in the fact that during the war, the high price of products led to the purchase of land under conditions which made economical cultivation impossible in normal times. This was further accentuated by the agricultural development of areas for cereal crops, hitherto unused and wholly unsuited for the purpose.”

Mr. SALES: You do not agree with their remedy?

The WITNESS: No.

*By Mr. Maclean:*

Q. Their new remedy is the legislation—A. I do not think that America can shut itself off from the markets of the world and still do business with the world.

*By Mr. Sales:*

Q. Do you believe it is possible to protect the farmer?—A. Well, I do not see how the farmer can be protected in a country that exports a considerable portion of its products.

Q. As exports?—A. Yes. He can be protected within his own market.

Hon. Mr. STEVENS: The first thing we know we will be drawn into a discussion on the tariff.

*By the Chairman:*

Q. When you say "The establishment of a domestic market for farm products will be on the American basis" it does not mean only protection; it means the creation of the whole market?—A. Yes, more than that.

*By Mr. Kellner:*

Q. You said a moment ago the question of interest was controlled by the State laws?—A. Yes.

Q. And I understood you this morning to say that the Farm Loan Board had to control it before they could sell the bonds?—A. That is for the Intermediate Banks. I was speaking there of the corporations and State Banks through which the farmers secured their loans—that is, the sub-organizations, you see. You will see that on page xcix. I was referring to the middle group on that page at the bottom, under the heading "Intermediate Credit."

*By the Chairman:*

Q. The small banks and trust companies?—A. Yes.

*By Mr. Sales:*

Q. I am interested in Mr. Stevens' remarks but it is not this Committee that interjects that, it is very plain there. It says:

"The remedy is as obvious as the cause. It rests in the application of effective protection of the farm equally with those of other industry. The establishment of domestic markets for farm crops on an American basis, apart from world conditions, to conform with like markets already provided for American manufacture and American labour."

Hon. Mr. STEVENS: I was only suggesting we might have a full-dress debate on it. If it were to continue, I have a few questions I would like to ask, if possible.

Mr. COOTE: Let us not continue it.

The WITNESS: May I make myself clear. It says on page ci of this report:

"It rests in the application of effective protection of the farm equally with those of other industry. The establishment of domestic markets for farm crops on an American basis, apart from world conditions—."

That was the thing I was specially emphasizing. The remedy is not to shut herself out from contact with the world. I was not referring to the protection end of it at all, and I still hold that view; it is a mere expression of opinion.

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*By the Chairman:*

Q. It had also "to conform with markets already provided for American manufacture and American labour". Therefore, it assimilates the whole market for farm products, and the whole products created by the protection of industry?—A. It practically says we will shut ourselves off from contact with the world. That would be all right if we did not sell to the world. That has been the chief ground of agitation against protection of farm products in Washington, that it would raise the opposition of other countries. I wanted to clear up these two points that I left unfinished this morning.

Q. You touched on a question in respect to the difficulties met at the present time with banks loaning money to the farmers and the great anxiety existing at the present time?—A. Yes.

Q. Does it mean these Farm Loan Banks are in difficulties in respect to these loans to farmers?—A. I was speaking there of the small State Banks only.

Q. Not the Farm Loans Banks?—A. No.

Q. Just the smaller banks?—A. Yes, I was speaking of the smaller banks of the United States, over 500 of which have gone into liquidation in the last three or four months.

Q. They could not re-discount with the Credit Banks or the Federal Land Banks the security which they have to offer?—A. No. This is what happened. The small banks let out loans on mortgages—the State Banks have the right to loan on mortgages—on two or three year loans. They were discounting these with the Federal Reserve Bank, and one or two banks went down and the people began to withdraw their deposits, and the small banks having all their money out on capital loans, and receiving no deposits, had nothing to do business with, and they were going down like ninepins.

*By Mr. Shaw:*

Q. Is there any relation between any one of these forms of banks, whether it be Federal Land Banks, or joint-stock banks, or Intermediate Credit Banks, with the Federal Reserve System?—A. I think I can explain that in one sentence. The Federal Reserve System received authority to take in as members of the System all of the National Banks, or in other words the National Banks were compelled to come in, and the State Banks that came up to a certain standard in their capitalization, and obeyed certain regulations and who wished to come in were permitted. Now, all of the National Banks came in, and about 14 per cent, approximately, of the State Banks joined. The remaining 86 per cent of the State Banks of the United States have not joined the Federal Reserve System, and inquiry is going on as to why this has happened. They have altered the law in 1923 making it easier for them to get in.

Q. That does not answer the question I asked, Doctor. The question I wished to inquire into is as to whether any of these Federal Land Banks or Intermediate Credit Banks which were organized under the auspices of this Federal Law regarding Land Banks, are related in any way to the Federal Reserve System, and if so, in what particular?—A. No, these institutions, the Federal Land Banks or the Intermediate Credit Banks have no affiliation with the Federal Reserve System.

Q. Are they under the control of the Treasury?—A. They are under the control of the Farm Land Board, which functions as a bureau of the Treasury, but they are separate things.

[Dr. H. M. Tory.]

*By Mr. Maclean:*

Q. From the standpoint of public welfare would you say that with the Federal National Reserve Bank System now in operation in the United States with its rediscounting facilities for member banks in the several Reserve Bank districts of that country; also with the national legislation creating the Federal Land Board with its associated Federal Land Banks and Joint Stock Banks and its Intermediate Land Banks—all these agencies employing national currency and a substantial and practical credit service at lower and uniform interest having been supplied by the Congress of the United States to the whole country, and therefore to the great advantage of the general commerce—industrial and business—and to agriculture as well—, that similar legislation would be to the great advantage of business, industry, and agriculture in Canada?

The CHAIRMAN: I do not believe that the question is quite fair to the witness, in the first place, because it is not in the shape of a question it is in the shape of a statement.

Mr. MACLEAN: I say if he admits all these things—

The CHAIRMAN: I would rather suggest the question be put to the witness, and the Doctor be allowed to make his own statement.

*By Mr. Maclean:*

Q. Well, do you know the Federal Bank Reserve System with its discounting facilities in the districts?—A. Yes.

Q. And that has been the relief of commerce and industry?—A. I would say that a great advantage of the Federal Reserve in the United States has been that it has centralized reserves of the member banks which go into the Federal Reserve System and are held there; it has given, to that extent, security to those banks by holding, at central organizations, their reserve, and to the banks who have joined it, it has offered almost an ideal system for rediscounting and moving the money from one point of the country to the other, as required. One of the difficulties why it is not meeting with success—and this is receiving bitter criticism in the United States; as bitter as anything I know of, particularly from the agricultural standpoint—is that, first, the most of the smaller banks who do business with the farmers have not joined it at all; they refuse to come up to the business standards which were advised by the Federal Reserve Board as a basis for the banks coming in, and so they are not functioning, and the other reason is to centralize the reserve funds of a nation at a point which can be made available.

Q. And the same thing is attempted in connection with the Land Farm Board?—A. With the Intermediate Credit Banks for agriculture.

Q. But on the whole they are trying to settle the financial difficulties of the whole Union?—A. Mr. Chairman, there is no question—if I may put it in this way—but that the United States Congress, wisely or unwisely, has made a gigantic effort—I think it will be one of the greatest adventures in finance when we see it at a distance in a number of years—to solve the question of farm credits on a sound basis, but they are finding they have to deal with human nature just the same, the difficulties are human nature's difficulties.

*By the Chairman:*

Q. From what you could judge, was the system successful in the United States?—A. It was distinctly successful for the people that it reached, people who had the security. The intermediate banks had loaned in nine months over thirty million dollars, and to the people who could get that money it was a successful organization, but the fact was that the farmers up in North Dakota



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could not get money; they were not loaning a dollar because they had not the kind of security to offer.

Q. It cannot relieve farmers who have no security to offer?—A. No.

Q. It can relieve farmers who have the security, by providing money at a cheaper rate of interest.—A. Yes.

*By Mr. Maclean:*

Q. What would you do with the Canadian farmer?—A. I will come to that later, if you do not mind.

*By Mr. Shaw:*

Q. Is not the scheme of this undertaking by the United States to have made available for the farmer his own credit?—A. Yes.

Q. Is that not the underlying purpose of it?—A. Yes; it really starts out to repeat what was done in Europe, organize the security of the farmer so that it would become attractive. They do not make a beggar of him; he is not getting money for nothing, but they are giving better security.

*By Mr. Coote:*

Q. You have used the terms here several times, "long term credit" and "short term credit"?—A. Yes.

Q. What term of years would you call "short term" as distinguished from "long term"?—A. In the first and second chapter of my report I tried to define these words, because they are used very vaguely in most literature. Long term credit is mortgage credit, five years and upwards, and as it is worked out in all the systems of which we have been speaking, it has been worked out as mortgage credit on a mortgage bond basis for raising money.

*By Hon. Mr. Stevens:*

Q. Amortization?—A. Yes, amortization. Europe uses the words "short term credit" in every case to cover everything but the mortgage.

*By Mr. Coote:*

Q. All but the farm mortgage?—A. Yes. In the United States and Canada you are using the term "short term credit" to represent ordinary banking operations, and intermediate loans from six months to three years.

*By the Chairman:*

Q. Are they all secured by mortgages as well?—A. In France you may get a short term credit secured by mortgage, but generally speaking you cannot secure it by a mortgage at the start.

*By Mr. Sales:*

Q. That would be a chattel mortgage?—A. Yes, against crop or warehouse receipts, or anything that is secure, non-perishable. Short term credit as we use it generally means both short term and intermediate credit. The United States is the only place where the official term "Intermediate credit" is used so far as I know.

*By Mr. Coote:*

Q. It is my opinion that we have never really had a system of long term credits in Canada, and I want your opinion on that, because I think it is a fact that the great bulk of our mortgages are given for a term not exceeding five years. Do you think that is a long enough term for the farmer to be able to pay it off?—A. I tried this morning to make it clear that where a farm is bought at the real price of land as it is to-day, no man can pay it off in five years unless he has other sources of income.

*By Mr. Sales:*

Q. In fact, you suggested 30 years?—A. Yes. In Britain, for instance, the whole scheme is on a 60 year basis.

*By Mr. Coote:*

Q. You would have no hesitation in saying that we do need a longer term?—A. I say that definitely.

Q. And that we need an amortized loan?—A. Yes.

Q. And that they are not available in Canada to-day—

Mr. McKAY: They are in Ontario.

The WITNESS: They are available only through local Government organizations, and I believe one or two insurance companies in the United States are doing that, but they are only available in Canada through the local Government organizations.

*By Mr. Garland:*

Q. In every country in which this long term amortization plan of credit has been carried out, there has been an immediate and general reduction in interest rates; is that true?—A. I would not say an immediate reduction; I would say that as the business has grown in proportion to the total business of the country, it has certainly brought interest rates down.

Q. But as a result of the establishment of these organizations, there has been an appreciable reduction in interest?—A. There has been a regulation of interest all over the North American continent. I would not like to say absolutely that, for example, in the eastern States interest rates may not be much lower. In the western States they are enormously lower.

Q. In your opinion, would the establishment of some similar organization in Canada reduce the interest rates to the farmer borrowers in Canada?—A. Just as soon as enough money at lower rates of interest is loaned, to be effective.

*By Mr. McKay:*

Q. Do you think that could equalize interest rates all over Canada or the United States?—A. I think I see the point you are getting at. Here is what is happening in the United States. Any big mortgage company going into the western States finds itself in effective competition with this farm loan scheme. One hundred and four million dollars loaned out in St. Paul is a pretty effective competition in that district. Now, what are they doing? They are actually lending money in some districts cheaper than the Farm Loan Board, but they are selecting their districts; they are not taking the loans that are difficult. There is the danger of the situation there as I see it, that the big mortgage companies will only do business with the thoroughly competent and tried people; they are selecting the good districts, and they will cut out a whole district and the Farm Loan Board will have to take the choice of what the company leaves in that particular district.

*By Mr. Maclean:*

Q. Are they not trying to pulverize the source of credit so as to make it common all over?—A. You mean the Farm Loan Board?

Q. Yes.—A. There is no doubt about that; the whole scheme is designed to give credit all over the country at a common rate of interest, and in order to do that they are selling common bonds, and the whole thing is a unit. That is like any company going out covering the whole of the country.

*By Mr. Sales:*

Q. Do you think the newly settled parts of the country have anything to do with the success of this business?—A. No, I would be inclined to say



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this, that the new parts of the country, where credit, the value of land is newly established, will not get as much benefit from it as the parts that are comfortably established. I would be inclined to say that the well-off, strong farmers will not do business with this organization because they do not want to go into a co-operative scheme. It is your moderate farmer who will put his weight into it, and the hope of success of the whole thing is in what we call the intermediate farmer, the man corresponding to the skilled labourer, as distinguished from the merchant farmer in the one hand, and the day labourer on the other.

*By Mr. McKay:*

Q. You do not hope to devise a scheme that will take in every farmer?—A. I do not think it is possible to devise a scheme to take in every farmer, unless you give away money.

Q. I see in the Ontario scheme, 1234 applications were made by farmers last year, and 953 of them were considered favourably, while 281 were rejected?—A. Yes.

Q. That is the whole point; there will always be the rejected ones?—A. Yes, and the rejected ones always make trouble for the others.

*By Mr. Ward:*

Q. How many provinces have adopted this scheme, or a scheme of this sort?—A. Starting in the West, British Columbia, Alberta, Saskatchewan, Manitoba, Ontario,—Quebec has not, Nova Scotia has, New Brunswick has. The two left are Prince Edward Island and Quebec.

*By Mr. Coote:*

Q. Has Alberta loaned any money on long term loans?—A. Alberta has had an Act on the books since I think 1917. It was never brought into operation. This year a new Act was passed that is supposed to have been brought into operation, but it is not in operation yet.

*By the Chairman:*

Q. Is the legislation in the western provinces pretty similar?—A. Very much the same.

*By Mr. Coote:*

Q. You are fairly familiar, I think, with this question of agricultural credits the world over, and the question of agricultural conditions. Do you think the Canadian farmer can continue to compete in the markets of the world if he is compelled to pay from eight per cent to nine per cent interest on his long term loans—

Mr. SALES: And ten per cent.

*By Mr. Coote:*

Q. Yes, ten per cent, while farmers in these other countries are getting it at five per cent and five and a half per cent?—A. I think I say something in this report about that.

The CHAIRMAN: We are going to the fifth section of this report, which covers the ground of rural credits in the Dominion of Canada.

The WITNESS: Might I say just one further word. The other thing I wanted to call your attention to is this; I emphasized this morning the two modes of long term credit. That is, the organization of borrowers and what we might call the organization of lenders, who controlled the rate of interest.

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These are the two schemes. Now, there is a third scheme in a great many countries, and that is the scheme of direct government loans. In Great Britain the new Act there provides for direct government loans straight from the Treasury to certain kinds of farmers. For example, their Act was primarily in the interests of the 21,000 men who bought land between the years 1917 and 1921. In Great Britain there were 21,000 new land holders who purchased land at that time, and 1600 in Scotland as well. They did that partially on the promise of the Government that there would be a sustaining of the prices of products. I think it was in 1919 that Lloyd George made the statement that there would be a fixed price, and the farmers would be secured if they continued in their operations, and the result was a great deal of land was purchased. In 1921 the whole scheme was found to be not feasible, and the Act authorizing it was repealed, with the result that people found themselves in a difficult position. Last year, 1922, a committee of the House of Commons studied the whole subject and they decided there was a just claim on the part of the men who had been led into the purchase of land by that promise of the Government, and that therefore some relief must be given to them, so they passed an Act last year making direct government loans from the Treasury of Great Britain to the men who bought land between the years 1917 and 1921, to be repaid on a 60 year amortization scheme, if my memory is correct.

*By Mr. Sales:*

Q. And the rate of interest, Doctor?—A. The rate of interest was to be fixed by the Treasury.

Q. You do not know what it was?—A. I think it was fixed at five per cent.

*Hon. Mr. Stevens:*

Q. That was to discharge a government obligation?—A. Yes, it was to discharge what a committee of the House of Commons conceived to be a government obligation. There were men who had been led to do what they did, who were in a difficult position as a result.

*By Mr. Kellner:*

Q. I would like to ask about a paragraph on page xlv, the third paragraph from the top. It is a suggestion to the committee last year, and I would like to know if you care to make any comment on it. It is just in this connection, the second paragraph in quotation marks.—A. (Reads):

"In this connection also, the attention of your committee was drawn to the question as to whether it would be advisable and in accordance with sound economic and banking principles to extend to those provinces which desired to obtain money for their rural credit systems, facilities for obtaining of credit such as are afforded to the chartered banks under the provisions of the Finance Act of 1914, under the provisions of which Dominion notes are issued to the banks against the deposit of certain approved securities with the Treasury Board."

Q. Have you any remarks to make about that?—A. May I leave that until we are discussing Canada? We are coming to that in a moment, and I wanted to clear up these other points first.

*By Mr. Coote:*

Q. Just another question about loans in Great Britain. Was that obligation because of a promise made by the Prime Minister of Great Britain?—A. Yes; it specifically said so in the report that the Prime Minister made a statement that they would be protected in the price of their products.

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*By Mr. Garland:*

Q. Is it not true that in countries where any such terms were made, there exists two government systems.—A. I do not think I had started on that when I was interrupted.

The CHAIRMAN: I would suggest for the time being, gentlemen, that Doctor Tory be allowed to continue with his statement.

The WITNESS: In Great Britain I say they have adopted that principle so far as they are adopting the principle of loans at all. They are also stimulating the local associations which handle the short term credits. Broadly, that is what they are doing. In all the other British Dominions, South Africa, New Zealand and Australia, they are making the loans directly from the Treasury. That is to say, there are Boards organized, but the money is raised by the Treasury and handed to the Boards. As far as all our organizations in Canada are concerned, that is in all these provinces the money is raised directly by the Treasury and handed over to an officer of the Board, so the principle of loaning money directly from Government funds has been established in the major British Dominions. It has also been established in all the States of the Union doing business as States. Minnesota just passed its Farm Loan Act last year, and in the state of Minnesota, the Treasury is raising the money directly and giving it to the administrative board to loan. This is state money that is being loaned in all the States. Altogether, about one hundred million dollars has been loaned by the States of the Union; there are about 20 of them, I think, doing that now on the basis of direct state loans.

*By Mr. Maclean:*

Q. At the one rate of interest?—A. No. The rates of interest vary with the states; they have to raise the money and pay whatever they can get it for. The State of South Dakota has approximately forty million dollars on that basis now. I just wanted to make it clear that there was a group apart from the other two we were emphasizing this morning, a group of countries financing it by direct state loans. Now, we come to the position in Canada.

*By the Chairman:*

Q. If you are leaving this subject, would you tell the committee if you see any particular advantage in the State raising directly the funds and advancing them to the Board?—A. The only advantage that I can see is the advantage of cheaper rates of interest in raising the money. That is, the State can usually get the money cheaper than any other institution. That is not true where farm loan schemes are well established, as in Europe, where the money is raised as cheaply by an independent organization whose credit is established. That is the only advantage. I do not hesitate to say that the outstanding disadvantage is the difficulty and danger of a contract of the government and the individual, coming and borrowing directly from the government funds. There is no question about the danger of that.

*By Mr. Shaw:*

Q. Is it not true that in order to get money at a reasonable rate of interest you have to have a long term loan?—A. Yes.

Q. What would be the effect of our Interest Act, one provision of which says the borrower can, at the expiration of five years, pay off his mortgage upon payment of a bonus of three months' interest? Would that have to be repealed?—A. No. Under the established farm loan scheme of the United States, after five years any man can pay back his mortgage if he wants to.

[Dr. H. M. Tory.]

*By Mr. McKay:*

Q. That is true in Manitoba, is it not?—A. Yes, and the farm loan bank can go into the market and buy its own bonds with the money to cover it, so as to be rid of the obligation at the same time.

*By Mr. Coote:*

Q. I would like to ask one further question about the United States conditions. What percentage of the farmers in the western states would you think had sufficient security to get a loan under the Federal Farm Loan System?—A. I could only guess at that.

*By the Chairman:*

Q. Are there any statistics compiled on that?—A. No, there are no compiled statistics, but the bankers would say 25 per cent could not get loans. I think the bankers would say that.

*By Mr. Spencer:*

Q. What could you do with that type of farmer?—A. That is what the Congress of the United States is labouring to find out to-day. They put up a fifty million dollar proposition, and the Senate turned it down. The President appealed to the new Finance Corporation, which has a ten million dollar basis, and said, "If you will finance these people, we will give you the assistance of the War Finance Act," and that is now before Congress in some form.

*By Mr. McKay:*

Q. In the case of the Governments advancing money in this way to farmers, say at five or six per cent, what effect would that have on the life insurance companies?—A. That is a very big question.

Q. It is a question arising out of this?—A. I imagine that an examination of the statistics of the insurance companies would show that not more than ten per cent of the big companies in the East—I will put it this way: I would be surprised if more than ten per cent of their investments were in farm mortgages.

Q. What about the loan companies?—A. The loan companies would of course have mortgages out; they would have their mortgages running as long as they were destined to run.

Q. I suppose that the loans by the loan companies are 80 per cent in mortgages?—A. I should say more than that.

Q. Then what effect would that have on the loan companies?—A. The Saskatchewan Government has loaned \$9,000,000 and has authority under the Act to loan another million dollars on the Farm Loan basis, and that has not affected the interest rates to any considerable extent.

Q. I am looking into the future?—A. The fact remains that the mortgage companies are placing their money at the same rates of interest as they were placing it before. In other words, there has not been sufficient competition to affect them.

Q. The reason has been that the local governments have not had the funds, but suppose they had the funds and they could raise \$100,000,000 what about the loan companies?—A. They would have to come to the same rate of interest or quit business. If Saskatchewan could lend \$100,000,000 they could take all the business. But may I say that so far as I know, none of these companies have ever striven to put other companies out of business. What they have striven to do is to get enough business to be regulatory. The Farm Loan Board is perfectly satisfied in certain sections not to loan any more; they do not want to loan any more; they prefer that the companies would loan. They are always standing there as a competitive organization on the matter of interest rates.



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Q. Are not the fire and life insurance companies lending on farms?—A. The western life insurance companies, whatever their operations may be, will give no statistics. I could get no statistics of their mortgage business in Canada from any of the companies doing business.

*By Mr. Sales:*

Q. Did they refuse to give you any information?—A. They say there is no statistical information to give. I tried the Statistical Bureau and they had no information to give.

*By Mr. Coote:*

Q. If these life insurance companies were able to invest all their money in bonds of the Farm Loan Board drawing five per cent interest, without any expense to them for collecting, do you not think they would be earning a very good rate of interest on the money they had to invest?—A. I am quite confident that once the security of any new organization was firmly established, there would be no trouble in selling bonds at five and a half or six per cent. Whether you could sell at five per cent is another matter.

Q. These life insurance companies have a good deal of money invested in bonds drawing five per cent interest?—A. I should think that an enormous amount of money is invested in Government bonds in the United States and in Canada.

Q. I think that if you would look into some of our life insurance companies you would find that they have much money invested in farms on which they have foreclosed.—A. I emphasize in this report—on page cxiii—this fact: This statement was made to me by the mortgage companies that the restrictions placed in western Canada on mortgages and priorities has increased the rate of interest from one to two per cent. That is to say, if those restrictions were removed, they could do their business at at least one per cent cheaper than they are doing it now; some said two per cent cheaper. I make the statement here that I did not find anybody who would promise me that if those restrictions were removed they would start lending at a cheaper rate of interest.

*By Mr. Garland:*

Q. Is it not true that the Government of those provinces where these accusations were made have denied that there were such priorities existing?—A. There is no question that it is a matter of very keen dispute. I say this that I have not yet found any lender who is willing to pin himself definitely to an agreement that if the restrictions were removed the price of mortgages would be reduced. I say this:

“My judgment is, this is a matter of such serious importance that a conference between representatives of the mortgage organizations of Canada and the governments responsible for the legal limitations complained of and the lenders of the farmers’ organizations in the country should be held to discuss the whole matter to see whether some scheme could not be devised that would remove the suspicion and doubt that have arisen in connection with it.”

There is no doubt that there is suspicion in the minds of the western people with regard to the mortgage companies.

*By Mr. Sales:*

Q. Is it not a fact that before we had these localities brought in, they charged just as much for our money years ago as they charge now?—A. With that fact which I have stated before you, you can form your own judgment.

[Dr. H. M. Tory.]

*By Mr. Gardiner:*

Q. Have you made any inquiries as to the rates which were in existence prior to this restrictive legislation going into force?—A. I could not find that there had been a very great variation in interest charges. Now may I just say a few words about the Canadian situation. Three times an effort has been made in the Parliament of Canada to pass an Act, each time with the same title, to establish in this country on a national basis the principle of co-operation in the purchase and supply of farm products in small banking organizations. Each time the bill was defeated. The last time it came before the Canadian Parliament in 1914, the bill was defeated. No further effort has been made in that direction recently, to establish anything in the way of a national organization for Canada. In the meantime, co-operation has been established, as I have already stated, in all the provinces. Co-operation for short term loans, and some plan by means of Government assistance for long term loans has been adopted in all the provinces, except Quebec and Prince Edward Island. In the province of Quebec, beginning in 1900, there is a small rural credit bank scheme of the type established in Germany and Italy. I think it is about as remarkable a piece of financing, the development of the small rural bank for the assistance of the rural population, as we have had in this country. It has been developed without any assistance, even without Government supervision, if my memory serves me rightly.

The CHAIRMAN: For a couple of years there have been regulations.

WITNESS: It has been developed in a very remarkable way. Last year they did business representing a turn-over of \$11,000,000 in small loans to the farmers and the workmen in the various communities. It is the oldest and best established system of short term credits that we have in Canada, and it has been developed without assistance from anybody. The long term credit organizations of the provinces to-day are practically not functioning. They have brought a new one into existence in Nova Scotia; it is on the statute books, but it has not been developed and its machinery has not been set in motion. The one in Manitoba has been working for some time. I think they have approximately \$5,000,000 out; I am trusting to my memory in giving that figure. They have \$9,000,000, out in Saskatchewan, but we have not any out on the long term scheme in Alberta. In British Columbia there are about \$2,000,000 out. They have two Acts there quite varied in their application. I think they have about \$2,000,000 out on the long term basis in British Columbia. Then we come to the short term credits. In Nova Scotia I think we have about \$150,000 out under their short term scheme. Manitoba has something like \$3,000,000 out. Saskatchewan has not a short term scheme, and Alberta has approximately \$800,000 out, in short term loans through the co-operative associations. They have a certain amount out, \$500,000 or something like that in British Columbia. That is the situation as it stands in the provinces. As I said before, long term credits in Canada, so far as the local governments are concerned, apart from Ontario, are not functioning at the moment because of the difficulties of getting money. I would like to refer you to the last paragraph of my report, and then I shall be open to questioning. On page cxxi you will find in broad outline the various schemes in operation, and at the top of page cxxiv you will see my judgment on this matter.

“Further, there is without question, a considerable number of farmers in Canada, who, following the urgent advice given during the war and at the close of the war to continue production, find themselves, due to the heavy deflation, in the same position that farmers found themselves in England and the United States, and for whom some plan of amortization



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of loans is absolutely necessary, if they are to be able to continue on the land. This demand is being met to-day only in a very limited degree. It is very doubtful whether the provinces alone can continue to develop long term mortgage business without taking risks greater than they should take in connection with their own financing.

"Now, while I am firmly of the opinion expressed by Sir Horace Plunkett and already quoted, that agriculture must be a self supporting industry, I believe with equal confidence that there is a need in Canada for some organization co-ordinating the credit which the farmer has to offer in such a way as to make it more attractive to the man who wishes to loan his money at a reasonable rate of interest with proper security. Every country in the civilized world has ultimately been compelled to take such a step. When it is remembered that two per cent, under the ordinary amortization scheme, will amortize a farm mortgage in 20 years, therefore, a reduction of two per cent in interest is equivalent in 35 years to the capital debt, the significance of the foregoing statement will be apparent."

I have not suggested definitely what the form of organization should be but I think I have expressed a firm judgment as to the wisdom of something being done.

*By Mr. W. F. Maclean:*

Q. You would not say whether it should be Federal?—A. I think I have strongly hinted that it should be Federal in form if the provinces cannot finance it. Now, turn to the last page, page cxxvi. (Reads):

"One word in conclusion—. It ought to be clear to anybody that Canada is slowly passing through the stage in her agricultural development that the United States was passing through some years ago, viz., the best lands of the country have been taken up, wealth accumulating from the rise in land prices will, in a large measure cease, and land mortgages based on growing prices will be harder to carry. I have no doubt that competition from the United States so far as cereals are concerned will grow less and that, in spite of high tariffs, the United States must buy from us eventually, but competition from a revived Europe and other parts of the world will increase. If we desire to have Canadian agriculture maintain its place in world competition in the future, the time to begin to plan for the rational administration both of its finances and its scientific development is the present."

That is my conclusion, and then I make this suggestion. (Reads):

"Should the Government deem it wise, during the present session of Parliament to take action with regard to the establishment of a plan for the development of long term and short term credit, I would respectfully urge that an intensive study of this problem be continued. If it is considered wiser to wait for further maturity of opinion on the subject, then I would respectfully suggest that, as the period given for the preparation of this report has hardly been sufficient to study the problem from the point of view of the communities seeking benefit, that I be permitted to continue the study of the problem in the interim."

Now, gentlemen, may I say just one word in conclusion. My position in regard to the matter,—I have thought it over very carefully—is this: If there is one thing that we in Canada should avoid, it is the duplication of machinery. I do not believe that we can start duplicating provincial machinery

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without increasing the cost ultimately of loans to the farmer. In other words, if you establish expensive machinery, you are going to make business expensive; and I think they are making a very great blunder in the United States, in Minnesota, in duplicating the Federal system. The thing that was in my mind when I wrote that statement was this: There should be co-ordination of effort between the provinces and the Federal Government. Whether it would be wiser to use the present organized machinery of the local governments, wherever they desire to use it, and have the Federal Government become responsible in assisting in the advancement of this scheme—that is one thing. I do not know how far that is possible, constituted as we are, Anglo-Saxon people, particularly in the West. But I am firmly convinced that the time to study this thing to a conclusion is now. Do not let us go too fast, but let us be sure that we get the right scheme, and if it is necessary to have some help, it should be found at once. I know that some of you feel very strongly on the matter. My judgment is that it should be done under some comprehensive arrangement pending a final organization or permanent scheme; I would certainly be opposed and would give my judgment against any scheme that would put the Federal Government in competition with the local governments. It must be unified, and if the present difficulties could be overcome temporarily to give us a little more time, I would gladly devote much more hard work to seeing whether we could not bring together something that would stand the test of time by doing the right thing. That is my feeling about the matter.

*By Mr. Sales:*

Q. I would like you to deal with that paragraph which was referred to on page xlv.—A. In answer to that I would say that I do not think you can have a short term loan scheme covering Canada without some discounting agency.

Q. Have you got the paragraph I am referring to? It is on page xlv. Mr. Kellner raised the question as to whether the provincial governments should have the same privileges under the Finance Act of 1914 of depositing their securities, those provinces which desire to obtain money for their rural credit system?—A. I think I have answered that specifically. If you ask me the definite question whether discounting facilities should be given by the Dominion Government to the provinces I am not prepared to give an answer; but if you ask me whether there should be the same discounting agency that would be a machinery for rediscounting, I would say yes.

*By Mr. Good:*

Q. Have you given any consideration to this proposition as an emergency measure say for the year?—A. No, I have not. What I think might be done is that some emergency legislation might be passed giving some comprehensive authority to meet certain difficulties at the moment, taking time to work it out in detail. I am not saying that I see it as it should come out in the end; I would like to study the matter further.

Hon. Mr. STEVENS: Personally, I have profited very much by the discussion of this matter by Dr. Tory, and I would like to ask whether it is possible to have a further opportunity of studying with Dr. Tory this question. There are some rather important questions that I would like to ask him, and as it is now getting late I would not care to discuss them in a casual way.

*By Mr. Maclean:*

Q. When do you expect an answer from the Government in regard to this report?—A. I am not expecting an answer from the Government at all. The

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Government asked me to prepare a report, and I have prepared it. They can accept it as an interim report, if they desire so to do.

*By Mr. Irvine:*

Q. I would like to ask if you cannot make your recommendation a little more definite than you have. I quite appreciate the necessity of co-ordinating all the various agencies that are attempting to give long-term credits, but could you not be a little more definite as to the means of co-ordinating those?—A. If I were told that that had to be done, I have no doubt I could put myself at work upon it and think it out to a finish, but personally I would prefer before suggesting a final plan to study all the localities a little more than I was able to do in the short time I had to work it out.

*By Mr. Maclean:*

Q. Have you authority to do that now?—A. No. They can ask me if they desire.

Mr. SALES: On page xliii there is a report of the Special Committee of last year, setting out in the second paragraph:—

“As to the necessity of credit on more advantageous terms to the farmers of this country, there can be little room for difference of opinion. Well selected and secured from loans should be among the safest and most attractive of investments, while the security offered through the pledging of non-perishable and readily marketable farm products is certainly comparable to that offered by merchants and manufacturers. Notwithstanding these facts, the agriculturist of Canada, in certain parts at least, pays considerably more for long term credits secured by his property than many of his competitors in other lands as well as more than is paid by many of his fellow citizens in other walks of life for similar accommodation.”

Do you agree that the agriculturist pays considerably more for his long-term credits secured by his property, than many of his competitors, as well as more than is paid by many of his fellow citizens?

The WITNESS: I agree thoroughly that he is paying more than any of his competitors. I say there is no question but that he is paying more interest than his competitors; whether he is paying more than his competitors in ordinary business houses I would not care to say. I think possibly not much more, although the business charges in western Canada are about the same, eight or nine per cent all around. I have borrowed a little money occasionally, myself, when I was hard up, and I have never found anything in Alberta less than eight per cent.

*By Mr. Shaw:*

Q. And that is compounded every three months?—A. Yes.

*By Mr. Coote:*

Q. Would you care to answer that question of mine now?—A. I would be glad to answer any question I can.

Q. What are the chances of the Canadian farmer competing in the markets of the world against the farmers of these other countries which have a rate of interest so much lower than the Canadian farmers have at the present time?—

A. I believe that the difference of two per cent in the rate of interest may mean all the difference between success and failure under competitive conditions, and as we settle into our groove in western Canada with more or less high-priced land, we will feel the competition of six per cent as against eight per cent, without question.

*By Mr. Shaw:*

Q. I would like to know something about your idea of emergency legislation—how should it be undertaken? Supposing we could not form a definite plan?—A. If you propose to meet on Friday at four o'clock to discuss this matter with me, I would like to think it over between now and Friday. I think that that is a very big question.

Mr. Good: I think Dr. Tory, if you will undertake to put your mind on this problem and suggest something on Friday, it would be very valuable to us.

*By Mr. Coote:*

Q. I would like to ask if you think it is desirable that this lower interest rate could be made favourable to our farmers as soon as possible?—A. Without question.

Q. Do you think it is possible to do so without undue risk?—A. I would be inclined to make this answer, although it is not a final answer; that it is not possible to do it without farmers' organizations backing it themselves. I believe firmly in the organization of the farmers themselves, if for nothing else than for educational purposes, backing their own credit. In every country in the world that had been the basis of compounding or co-ordinating the credit of the group behind the individual, and giving security to remove doubt as to security, and if you do that, the interest charges will come down as automatically as clockwork.

Q. If you had a credit organization similar to those in the United States, which borrow from the Federal Farm Loan Board, would we then be in a position to loan money to a certain percentage of our farmers without undue risk?—A. If you can raise the money on mortgage bonds at five per cent, you can afford to lend it at six or six and one-half per cent. One and one-half per cent will carry all the charges.

Q. I would like your opinion, if you can give it, as to whether a certain percentage of our western farmers are in a position where it would be safe to loan them this money?—A. I think there is no doubt about that.

Q. You think they have sufficient security?—A. I certainly do.

*By the Chairman:*

Q. You have no idea of what percentage it would be safe to loan money to?—A. No. Mr. Chairman, I have not.

Q. May I draw attention to Prof. Swanson's statement last year?—A. Yes, I have read it, but I do not recall it now.

Q. Would you read it again, and particularly at pages 787 and 788 of last year's report, and tell us at the next meeting what you think of it?—A. Yes, I will be glad to.

*By Mr. Coote:*

Q. I think you said something, Doctor, about there being a danger of going too fast in initiating some legislation in Canada?—A. Yes.

Q. Which do you consider would be the greatest danger, going too fast or going too slow?—A. The significance of my remarks about going too fast really was this; I said in this report that the time to prepare for a proper financial and scientific administration of agriculture is now. I mean we should take time now to do as well as we can—or if I might use the expression, as right as we can do it.

*By Mr. Ward:*

Q. That would not prevent emergency legislation?—A. No. We are doing things not so much for the present as for the future, probably for 100 years,



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and if we can get the thing started right and going right we might be doing the biggest thing for agriculture ever done in Canada. I think it is unwise to force men to think faster than they can think about some of these things.

*By Mr. Spencer:*

Q. Would you recommend emergency legislation?—A. There again I think it is a policy for you men in Parliament to say that. I have never gone into the farming districts yet to see, but you know how hard the situation is. I imagine that some legislation, for example, that would assist the western governments with money which they themselves would become responsible for, to help their machinery and keep it going for the time being is all that is necessary.

*By Mr. Steadman:*

Q. You are familiar, of course, with the provincial systems, for instance, the Manitoba Farm Loan Board?—A. Yes.

Q. There is no one needs more assistance than they; now. Would you suggest that it would be advisable that the Government of the province of Manitoba should assist them to secure money to come to the relief of the farmers at once, this year; we cannot wait; we cannot wait for a perfected system? Would you consider it a safe system to work on to finance the farmers under that system?—A. I think that the Manitoba system as presently working is safe enough; it did not show a great saving.

*By Mr. McKay:*

Q. Might not that be due to war conditions?—A. It is due to other conditions which we are not discussing here. I think the Manitoba system is a perfectly safe system, and I think the Alberta system is likewise a perfectly safe and sound system.

*By Mr. Gardiner:*

Q. Do you think it would be possible to sell bonds in Canada at the rate of discount prevailing in the United States?—A. No, but I feel confident that with a perfectly organized piece of machinery we could sell bonds in the United States. One of the bank managers of the Farm Loan Board said there was no difficulty in getting money in the eastern states of the United States, if you are properly protected.

*By the Chairman:*

Q. Would he be in the same position easily to sell his bonds if they were not tax exempt?—A. No, he would have to pay one-half of one per cent more. The Americans are selling bonds at  $4\frac{1}{2}$  per cent for their schemes, and you would have to pay one-half per cent more than that, and whatever the difference was between the currency of Canada, and the United States, as well.

*By Mr. Steedsman:*

Q. What percentage would you consider necessary for the Government scheme to carry the interest rate equal with the interest charged by the other corporations?—A. In the United States the Farm Loan Board mortgages are all based upon 50 per cent valuation on the property. That is to say, they will not loan more than 50 per cent on the property.

Q. And what percentage of the amount loaned to the farmers would it be necessary for the Farm Loan Board to pay to influence the rate of interest in the other countries, because the great thing is the reduction of the rate of interest. We do not care who holds the mortgages, so long as we get an amortized plan.—

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A. I told you this morning that in Germany 14 per cent of the loans have been made by these organizations, and they practically control the rate of interest on mortgages. In France, the Credit Foncier has a monopoly on the mortgage business, with a fixed rate of interest. Nobody else does business with the farmers excepting the Gredit Foncier. In the United States they have loaned approximately 16 per cent of the total—that is, 16 per cent is in the hands of the Farm Loan Board. There is no doubt that in certain localities it is decidedly affecting the interest to-day.

*By Mr. Good:*

Q. Would you say 20 or 30 per cent would be effective?—A. I would say 20 per cent would be effective, but you have to face this fact, and you might as well face all of the facts, that the competitors you will meet in the shape of loan companies will take this business into the best areas of the country and leave the other areas to the Farm Loan Board.

*By Mr. Spencer:*

Q. Have the mortgage companies already gone on record against the starting of rural credit?—A. I have no doubt they would object, because they are against it everywhere.

*By Mr. Coote:*

Q. How many years behind the United States do you think we are in Canada now, as regards the question of long-term credits?—A. Just since 1916.

Q. And you can not wonder then that some of our farmers in the west are a little bit discouraged at the interest which this Government shows in their behalf?—A. That is a political question I would not want to answer.

Q. I did not intend it in a political sense at all. Perhaps I should not have said "this Government", I should have said the Parliament at Ottawa?—A. I think it is remarkable that the Parliament at Ottawa has not passed an act long since, a national act, for co-operation; I could never see why that was defeated in 1914.

Mr. Good: I have made some investigation into that this session.

*By the Chairman:*

Q. What is the question?

*By Mr. Coote:*

Q. Do you not think that there is a very great danger to our farming industry from waiting too long to introduce something in the nature of long term rural credits?—A. I am absolutely confident we have to come to the scheme of long term rural credits if we are going to stand in competition with the world. I am certain of that. You could answer the question better than I can because you know the country better than I do, whether it is a pressing need or not. I have no doubt that a great many people will immediately receive the benefit of long term credits, but whether they can wait six months or a year, I do not know.

Q. Would it be much easier to introduce the proper machinery for long term credits than for short term credits?—A. I think the money is more easily obtained, yes.

Q. And that is the place to begin, if a start is to be made?—A. In Doctor MacGibbon's report, he reported that the farmers were not so anxious about the long term credits as about the short terms. That was in 1923. His statement was that the mortgage business was not as pressing as the short term business, that this three months banking problem was a serious difficulty.

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Q. I quite admit that.—A. But you are asking me to make a comparison, to compare two things, and all I can do is speak on the evidence that has been submitted to me.

Q. Just on the question of the possibility of such a scheme, are you not convinced that a long term credit scheme is much easier to introduce?—A. If it is really a question of the Dominion government starting it, the whole scheme of long term credits could be established in two months, but the difficulty is to re-adjust ourselves, to co-ordinate all the other systems as well. I do not see any legal or financial difficulties about a system of long term credits. Without claiming to have any legal knowledge, I venture to say that I could assist in drafting a bill in three days to cover it, but it will not solve the problem of co-ordinating all these efforts.

*By Mr. Spencer:*

Q. Could that not be done afterwards?—A. I do not know. I would like to have a conference on that.

*By the Chairman:*

Q. I would like to ask the doctor if he does not think that the great justification for the delay by Parliament in introducing that legislation was the fact that it was left to the initiative of the provinces, and that seven provinces out of nine have taken the initiative, and quite properly so?—A. Yes. The three western provinces sent delegations with the American Commission in 1913. I went for our own province, and Saskatchewan, as the result of their investigations in Europe—they went with the Commission, but as an independent body—formed a farm loan scheme which has been in existence since, I think, 1915, and they have been lending up to nine million dollars. The initiative was taken by the provinces in this whole matter; there was no representative of the Dominion Government with that commission.

*By Mr. Coote:*

Q. I wish to assure you and the committee that I had no intention of injecting anything at all political into this committee by the question I asked Doctor Tory. It was simply to bring before the committee and Doctor Tory the fact that the people of Canada had made no effort to deal with the question of rural credits, although the United States dealt with it seven years ago.

The CHAIRMAN: But even at that, I thought the remark was not quite fair in this respect, not that it was a reflection on any political party, and that there was no political question in it, but I thought it was not absolutely exact to say that the people of Canada had not taken any initiative in respect of that. I think it would be fairer to establish that the initiative was left to the provinces and that seven provinces out of nine have already taken steps to relieve the situation, and have relieved it to the best of their ability. That the time has now come for the Federal Parliament further to study the question and to take whatever method the committee might suggest, is quite probable, and the witness has said so, but I do not believe that any reflection should be cast upon any political party, or upon Parliament itself for not having taken such initiative which has been left to the provinces thus far.

Mr. SHAW: It would not be high treason to do so, though.

The CHAIRMAN: No, I do not say that, and therefore I did not rule the statement out of order, but I thought I would correct the statement by putting the question to the witness, and he has answered it.

*By the Chairman:*

Q. Now, I have another question that should be put to the witness, and which might throw some light on the subject on that very point. Is it not a

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fact, Doctor, that any scheme of rural credits established either by the Federal or Provincial initiative will be unable to cope with the demands that are coming from a considerable proportion of the prospective borrowers, who cannot offer the necessary security for their loans?—A. Without question.

Q. Therefore, that much of the uneasiness and much of the suffering that exists in the three prairie provinces and elsewhere in Canada—because I think it is wrong to say that the farming class in the three prairie provinces alone suffers; there is suffering in every province as well, in the province of Quebec, in the province of Ontario, the farming classes have felt the same difficulties. That is to say, they have suffered from the contraction of prices, the prices of the commodities they sell, when they have to pay almost the same prices for the commodities they buy that prevailed during the war. Is it not a fact that any system will be unable to cope with the demands, particularly on account of the fact that a prospective borrower cannot in many cases offer the necessary security?—A. The answer to that is that of the 1,500 who made application to the province of Ontario—you had the figures a moment ago—900 odd of them were all that could get loans, and I think the figures in Saskatchewan will show that about two-thirds of the people who applied for loans there got them, and the others were refused.

*By Mr. Garland:*

Q. Those two-thirds certainly needed it.—A. Without doubt.

The CHAIRMAN: Have you another question, Mr. Coote?

Mr. COOTE: I have a statement I would like to make in reply to your statement.

The CHAIRMAN: Go ahead and make it.

Mr. COOTE: My statement is this, that I think the statement which you have made regarding the condition of the farmers in all the provinces of Canada justifies the statement which I made regarding the neglect of this Parliament to pass legislation years ago to keep pace with the United States. The control of the finances of Canada rests with the Dominion, not with the provinces, and it was because of the neglect of the Dominion to make suitable provision for rural credits that the provinces did take some steps to try and initiate a system of rural credits, and I will wind up with this question to Doctor Tory.

Q. Is it not a fact that the province of Alberta, although they put legislation on their statute books as a result of the reports made by you and your associates, upon your return from Europe, but owing to the fact that the province of Alberta has not the necessary funds, they have not been able to make any long term loans, to any of the farmers in Alberta?—A. There are others in the room better able to answer that question than I am. As a matter of fact, the Government of Alberta did not make loans on the basis of the Act which they passed. They have not yet made any loans under that Act. Whether it was wholly due to the inability to get money, or whether there were other causes, I am not absolutely prepared to say. I think the difficulty of getting money is one of the great difficulties, but I am inclined to think there are other causes of anxiety as well.

Q. May I ask one further question. If the Federal government in the United States had left it to the governments of the several states to take care of the problem of rural credits, do you think the rural credit problem of the United States would be in as good shape today as it is?—A. No, I agree with you absolutely; there is no question about that. The Federal government scheme was so comprehensive that it is rather curious that the local governments are now competing with it.

Q. There is one more question I would like to ask. If, in the United States, they had waited until they were able to get all their schemes co-ordinated, and get every state lined up with a Federal scheme, it is possible that it would have

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taken them several years to initiate that legislation.—A. Yes, but of course my answer to that is this, that the question implies a criticism of my previous judgment, so my answer is this, that America is a country of one hundred and ten million people; that the state of New York alone has more people than the whole of the Dominion of Canada—

*By the Chairman:*

Q. And more money?—A. Yes, and we have a very scattered population. If the United States were starting with a population of nine millions, I do not think it would have been started with state organizations at all. That is why I say we have no room for competing organizations. We shall defeat the very end we started out to bring to pass if we have competing organizations cutting each other's throat and bringing politics into the administration, because that is what will happen. I would organize the thing from the beginning now and get it going right, but in the meantime if—what was the word, "emergency"?—legislation is deemed necessary, I think we could quite easily find a way by which it could be made effective.

*By Mr. Coote:*

Q. If we wait another year before we make even a start?—A. I am not even suggesting that we wait another year.

Q. In the other provinces which are not yet loaning anything on long term credits, would there not be a great deal of pressure brought to bear to get their schemes in operation, and then we would find two others to be co-ordinated?—A. I think we should take it up at once, of course. Do not let anything I have said convey the impression that I am asking for delay. I would like to see something done worth while; I have aimed at that all the way through, to get information upon which to base a worth while scheme, and if emergency legislation is necessary, let us have it.

*By Mr. McKay:*

Q. There must be a complete co-ordination of all the provinces in the scheme, doing away with all the local organizations we have at the present time?—A. Or using them as the basis for some further organization.

Q. But the scheme must be nation-wide?—A. Yes, that is the only way you could ever hope to establish a common rate of interest.

Q. We are to have next summer a national meeting on taxation, something that has been discussed for several years. Would it not be well to work this in and have a national discussion on this as well?

MR. SHAW: Discussion will not help the farmers.

*By Mr. Ward:*

Q. You made the statement this morning, Doctor, when you were referring to the Federal Loan Banks, that the borrowers were loaning money to themselves.—A. No, I did not say that. I said the borrowers were capitalizing their own loans, which is a slightly different thing. What I meant is this, that these loan Banks are permitted to loan twenty times as much as their capital, so if a farmer subscribes for \$50 worth of stock, on the basis of that he can borrow \$1,000, so he capitalizes his own loan, in reality.

Q. That is to say, they are utilizing the wealth of the community for its own development?—A. Yes, to that extent, that is true.

Q. Would you see any objection to that being carried out in the wider sphere of the development of a nation, Canada if you like? Canada might utilize her own wealth for her own development, rather than floating bonds in a foreign country?—A. Absolutely, if she can do it. It is a question as to how far that can be done.

*By Mr. Maclean:*

Q. Would it not be a great relief to the banks in Canada if the kind of banks we are talking of were established? They ought to assist in it.—A. I could not say; the banks would have to speak for themselves. I do not know enough about banking business to know whether it would affect them or not.

*By Mr. Shaw:*

Q. In your proposed scheme for emergency legislation, when you are considering that I would like to have in your mind a proposal that has been made. I do not know that it meets with the approval of the entire committee, but it is a proposition for the organization of what is called a central bank, which would have powers of rediscount, and I would like you to have in mind the establishment of an institution of that character, under government control, of course.

*By Mr. Good:*

Q. I was going to suggest that perhaps one reason why the Parliament of Canada and the people generally have not given consideration to this in the past, has been that we had not felt the need acutely until the deflation came in 1920 and 1921, and I was going to ask Doctor Tory whether or not he had made any particular study of the effects of that deflation as it concerns agriculture in relation to the increased need for the development of rural credit systems.—A. I have made a little study of it; I think I have studied it enough to be able to say that the deflation in prices is very largely the cause of all our present difficulties. I would say there were the two things, deflation and the loss of markets. The loss of European markets has played a part in it.

*By Mr. Coote:*

Q. Are we not sending more produce to the European markets than we did before?—A. I do not know how we are in Canada; I have not checked the figures on that.

*By Mr. Good:*

Q. Just in that connection, Mr. McMaster made some investigation last year. He is not here to speak for himself, but the general result of his investigation was that the amount of agricultural exports to Europe was considerably in excess of what it was in pre-war days, and that the prices were generally better. You mentioned the loss of our markets. The Deflation did not come until two years after the war, so there is something to explain in the continuance of high prices from 1918 to 1920.—A. The difficulty I see in giving the explanation—I would say these are principally the facts of the case. At first, when war was over and even as late as 1919, the Prime Minister of Great Britain was so confident that the prices were going to remain, that he promised the farmers of England to fix them by law. He did not foresee what would happen. Europe was out of food, and bought largely immediately following the war. There was an immediate purchase of a great deal of material directly following the war. We were told prices would continue for at least five years; I was told that by men who seemed to be competent authorities, and even after the war was over we were told to keep on working, because nobody foresaw the fall that took place, once the immediate needs of Europe were supplied, and they were supplied by 1920.

Q. There are some who contend that the deflation was brought about deliberately. It was suggested here the other day by Mr. Williams, former comptroller of the currency of the United States, that it was the financial policy inaugurated in 1920 that brought about that sudden deflation, and I think Mr. McKenna

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in England has stated the same thing. I was wondering if you had heard of that?—A. Yes, I have heard both sides of the question advanced. If you take the report of the Federal Reserve Bank of Minneapolis, published in March 1923, you will see that they present a full statement of their case against the view that they were responsible. They say that they continued to loan money lavishly to agriculture, that the thing was world-wide and they could not control it. I think that is a question upon which men will always dispute. We may arrive at a solution one hundred years from now, but not short of that.

*By Mr. Maclean:*

Q. Would you like to see low prices come for agricultural products?

Mr. SPENCER: Have we not got them now?

*By Mr. Maclean:*

Q. Would that help the situation, if the prices got lower?

The CHAIRMAN: Gentlemen, I suppose we might adjourn now until Friday at 10 o'clock, and on Friday afternoon at 4 o'clock we shall sit again to continue Doctor Tory's evidence.

Witness retired.

The committee adjourned.

COMMITTEE ROOM No. 429,

HOUSE OF COMMONS,

FRIDAY, May 30, 1924.

The Select Standing Committee on Banking and Commerce met at 10 o'clock a.m., the Chairman, Mr. Vien, presiding.

C. E. NEILL called and sworn.

The CHAIRMAN: I would suggest to the Committee that we adopt the rule of procedure that we have followed during the hearing of previous witnesses, allow Mr. Neill to make his statement, if he has any to make, and then question him. Mr. Neill, would you kindly give to the Committee your financial capacity, your occupation and experience for the information of the Committee?

WITNESS: In the absence of Sir John Aird, who is in England, and is the President of the Bankers' Association, I, as Vice-President represent the Association. My position, as probably you know, is that of general manager of the Royal Bank of Canada. Perhaps it might be advisable for me to say at the outset that I have not had the opportunity of consulting the bankers generally as to what I am going to say. While I represent the Association, the views I express here are my own views.

*By Mr. W. F. Maclean:*

Q. Not the views of the Association?—A. No, I have no statement to make; I would prefer that the members of the Committee would ask me any questions that they desire to ask.

*By the Chairman:*

Q. Mr. Neill, we have been examining under the order-of-reference to this Committee, the conditions created in respect to depositors by the failure of the Home Bank. The reference asks us to consider the provisions of the Bank Act

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with a view to recommending such amendments to the Act as will better protect the interests of depositors generally, and prevent similar occurrences in the future. The suggestion was made to the Committee that the Government should create a system of bank inspection or bank examination, separate and distinct from the bank audit actually in force, under Government control by officers appointed by the Crown. We would like to have your views as to how the amendments made to the Bank Act last year now function, and what your views are as to the creation of a Government inspection bureau separate and distinct from the audit actually in force.—A. I can best give my views by reading what I stated at the last annual meeting of our shareholders. It was this:—

“In some quarters there is a demand for Government inspection. Speaking for this bank, I desire to say that while we have a highly developed system of internal inspection, and in addition a thorough audit by efficient and experienced public auditors appointed by the shareholders, we shall be only too glad to submit to any further reasonable form of audit or inspection required, be it Government or otherwise, provided such inspection be efficient.”

That is the one thing we demand, efficient inspection.

*By Mr. W. F. Maclean:*

Q. Your Association has not made any declaration along the lines of that statement?—A. Our Association has not, but I think I am safe in saying that perhaps a majority of the Canadian bankers have expressed themselves in this way. Several have not, but on the other hand, I think the majority have.

*By Mr. Euler:*

Q. They have not taken any action as an Association?—A. No.

*By Mr. Good:*

Q. What was the attitude of the Bankers' Association last year when this question was before the Committee, if you know and can answer?—A. That would appear on the record of the meetings last year, Mr. Good. I do not know.

Q. The proposal was made last year and voted down, and I want to know what the attitude of the Canadian Bankers was last year in regard to this proposal to which they have now given their qualified assent?—A. I do not know, Mr. Good, that the Canadian Bankers, as a whole, came to any conclusion. I think, if I remember correctly, that certain bankers expressed themselves as being unfavourable to Government inspection; whether or not any expressed themselves as being favourable, I do not know.

Q. In your knowledge, has there been any change of attitude on the part of leading Canadian bankers on this question since last year?—A. Perhaps there is. As a matter of fact, while bankers may not consider Government inspection a necessity, at the same time, bankers feel that if the public demand Government inspection there is no reason why the public should not have it, so long as it is efficient.

Q. Might it be the means of restoring confidence?—A. That is possible.

Q. With regard to Section 56 (a) which gives the Minister the power to make any special examination at any time, what was your judgment last year towards that section, which I believe Mr. Fielding claimed to be sufficient?—A. You mean my personal attitude?

Q. Yes.—A. I saw no objection to it.

Q. Did you at that time consider it to be effective?—A. If I considered it at all, I would say so, yes.

Q. Do you consider it to be effective now?—A. You mean, if the Finance Minister—



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Q. I will read the section if you wish. (Reads).

"The Minister may direct and require any auditor appointed under the next preceding section of the Act, or any other auditor whom he may select, to examine and inquire specially into any of the affairs or business of the bank."

And so on. It is the provision which enables the Minister to make a special examination of the affairs of any particular bank.

Mr. SHAW: That was passed in 1913.

*By Mr. Good:*

Q. Yes, it is not a new section, but the claim was made last year that it was sufficient; and I want to know what your attitude was last year and what it is this year in respect to that particular provision.—A. My attitude this year is this: If this Committee does not think that that is sufficient, I would be prepared to go a step further and satisfy the Committee.

Q. Do you consider that it can be reasonably effective in any case? Perhaps you do not understand my point, but if you have been reading the reports of the Home Bank investigation and the reports of this Committee, you will have seen that a number of people, including the present Acting Minister of Finance, and Sir Thomas White and a number of others, have expressed the view that, unless under very severe pressure, no Minister would undertake a special examination of a bank because of the suspicion which it would throw upon that particular bank; that, therefore, in view of his reluctance to throw suspicion upon any institution which might be entirely solvent, he would not make a special examination. I think that was the case when the affairs of the Home Bank were brought to the attention of Sir Thomas White a few years ago. The question I now raise is, whether or not under the circumstances that section was effective or operative or whether it could be expected to be operative?—A. I can see no reason why it cannot be made effective. I can see no reason why the Minister could not send an officer to a bank at any time, if he thinks it advisable to do so.

Q. You do not think that such action on the part of the Minister would cast suspicion upon any bank specially selected for examination?—A. It might; I cannot say it would not. It might, but that would be for the Minister to decide under the circumstances what the best course would be to pursue.

Q. Suppose, as General Manager of the Royal Bank, that the Minister should suddenly send an auditor or staff into your Bank to make a special examination, it would be difficult possibly to keep that from becoming public; would you make any protest against such an action?—A. We would not like it, but we would expect that the Minister would not do that unless there was good cause, and if there was good cause, we should not object.

Q. How would you know what was sufficient cause until he had made the examination?—A. Information that might be conveyed to him.

Q. By whom?—A. Any one at all whom he considered reliable.

Q. I understand then, Mr. Neill, that you hesitate somewhat to endorse the statement made by Mr. Robb and by Sir Thomas White and a number of others with regard to the ineffectiveness of that section. I do not wish to prolong the discussion on this, but you are not prepared to endorse what they have said?—A. I do not know exactly what they have said.

Q. I have not the records with me, but—A. They thought that that section was ineffective?

Q. Mr. Robb stated here in this room the other day that he would feel very reluctant indeed to pick upon any particular bank and make an examina-

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tion of that bank, because of the suspicion it would cast upon that bank; that he would very much rather make an examination of all the banks in the regular course of affairs so that no particular discrimination should appear?—A. I can quite understand Mr. Robb's feelings.

Q. Would you prefer a regular systematic examination of all the banks rather than the selection of a particular bank for examination if the Minister learned in some way or other that the affairs of that bank were not in as good condition as he might hope?—A. Yes.

Q. I think that is satisfactory. The members were furnished some time ago with a little pamphlet written by a man in Toronto, a copy of which I have in my hand. Probably you have seen it. It is entitled "A Better Banking System for Canada," and on page two the writer states:—

"The circumstances that finally brought the Home Bank into insolvency were known to many people, myself included, five years ago. It is not conceivable that those irregularities could have continued so long under an independent audit and an independent scrutineer."

This man is a business man in Toronto who made some inquiries; he is in the importing mercantile business. Did you know anything about the condition of the Home Bank some years ago?—A. Nothing definite.

Q. You heard rumours, I suppose?—A. I had heard that the bank was supposed not to be in very good shape.

Q. Do you know whether the Bankers' Association had any knowledge of the condition of the Home Bank, say during the course of our sittings last year, during April, May and June of last year?—A. No, so far as I know, the Bankers Association had no definite information, so far as I know.

Q. Did you have any information which you regarded as reliable concerning the condition of that Bank at that time?—A. I cannot answer that question; I do not know. I may have had suspicions, or I may have had certain information which I could not act upon, or which would not be reliable. But I cannot say, I have no recollection. I may say that the failure of the Home Bank, when it came, the suddenness with which it came was a surprise to me.

Q. Do you feel that you know anything about the condition of Canadian banks other than your own bank, at the present time?—A. By reputation only.

Q. Might it be possible that the auditing of some banks, already in existence, is or has been, defective as was the audit of the Home Bank?—A. Yes.

Q. What can be done to re-establish confidence in the auditing of the Canadian Banks after what has occurred? What can be done to give some assurance to the Canadian public that the statements issued by the banks from time to time are accurate?—A. Possibly Government inspection.

Q. That then, in your judgment, would be a possible source of renewed confidence?—A. Yes.

Q. And personally, you are prepared to endorse that point of view?—A. Provided it is efficient and satisfactory.

Q. What do you mean by that, "Providing the system is efficient?" What have you in mind? I think the Committee would be glad to know?—A. Provided the inspection is made by experienced, competent, and reasonable bankers, or banker; a man who is capable of judging properly the condition of the bank.

Q. What kind of inspection would you regard as ineffective or harmful, inefficient inspection? What might happen? What would you regard as inefficient?—A. Putting a man at the head of the inspection bureau who is not competent and who does not know the business.

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Q. What might happen in that case? Give an example.—A. If an inefficient or incompetent man went into the office of any bank to inspect it, he might make criticisms entirely unjustified. He might not be able to value the assets of the bank; he might not be able to understand the position of the bank.

Q. Therefore, he might do an injustice to the bank?—A. Absolutely.

Q. And create a feeling of alarm when there was no need of it?—A. Quite right.

Q. That is what you have in mind?—A. Yes.

Q. Do you think that the shareholders of a bank ought to be fully informed as to the condition of the bank's affairs?—A. Yes.

Q. Or should there be some information withheld from these shareholders?—A. I can conceive that information such as applies to contingent funds or hidden reserves, it might not be advisable to submit these to shareholders.

Q. Why should not the shareholders have that information?—A. For a number of reasons. They might demand higher dividends if they thought that a bank had too much in contingent account, and they would have no means of judging how much a bank should have in contingent account.

Q. Why should they not be informed, reasonably, by the directors as to what the condition was as to appropriations and reserves?—A. I do not think there would be any good reason for doing so.

Q. There are certain matters which in your judgment should be kept confidential?—A. Yes.

Q. How many people ought to know all these matters?—A. The directors of the bank.

Q. All the directors?—A. Yes.

Q. You think there is nothing that should be kept from a director?—A. Absolutely nothing.

Q. Last year an amendment was proposed to Section 54 requiring additional information to be embodied in the annual financial statements of the banks. I do not know whether you gave it attention at the time, but I will read it so that you will get an idea as to what was asked for. The amendment was voted down. (Reads):

"That the following words be added to subsection 4, section 54:—

"The profit and loss statement shall include and show on the one part the amount of

- (a) Balance of profit and loss account carried forward from previous year;
- (b) Rebate of interest on unmatured bills as at close of previous year;
- (c) Gross profits, including balances of all interest, commission, exchange and other revenue-producing accounts;
- (d) Premium on new stock sold;
- (e) Bad debts recovered, previously written off, and the statement shall include and show on the other part:
  - (a) Expenses of management and operation;
  - (b) Interests paid on deposits;
  - (c) Interest reserved on unmatured bills;
  - (d) Amount written off bank premises;
  - (e) Amount transferred to appropriation account for losses;
  - (f) Amount transferred to officers' pension fund;
  - (g) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail;
  - (h) Dividends declared (specifying number and date);
  - (i) Amount transferred to rest account;
  - (j) Balance at credit of profit and loss account."

Is that new information which in your judgment should be furnished to shareholders, and which, therefore, should be included in the annual statement; or is it information which should be reserved, or part of it, for the directors alone?—A. I think part of it should be reserved for directors alone.

Q. You are not therefore prepared to endorse the view that this information should be provided in the annual statements to shareholders?—A. No, not all of it.

Q. Do you think it would be safe for any further information to be given to shareholders than is now required under the Act?—A. It might be for further information that the shareholders might ask for; it might be quite safe to give it to them.

Q. Would there be any objection to giving them any information as to salaries and expenses?—A. You mean the salary of every official, or the combined salaries?

Q. You could not give it in detail, I suppose?—A. There is no reason why the shareholders should not have the aggregate salaries paid if they wanted it, but it would not convey anything to them.

Q. Or the expenses of management and operation?—A. I see no reason why they should not have the full figures.

*By Mr. Woodsworth:*

Q. There is objection to the individual salaries being given?—A. I should think so; I would not like every one to know my salary.

*By Mr. Good:*

Q. Would there be any objection to giving that information to the shareholders at a shareholders' meeting if any one were to ask what the salary was of any official?—A. I do not think that is customary in any company to have a shareholder inquire as to what the salary of any official might be.

Q. That is rather a remarkable statement. However, I have some figures, Mr. Neill, as to the Canadian banks' earnings in respect to other banks, and I would like to know whether you have looked into this matter. In 1922-23 the net earnings were some \$15,927,000 odd, and the dividends distributed, \$15,563,000 odd on resources—with the total assets and total liabilities pretty much the same—of \$2,618,000,000; the figures for the Australian banks with earnings of nearly \$25,000,000, resources of \$2,067,000,000; in the case of the Australian banks my information is that over 30 per cent of the earnings are placed to reserve. In the Banks of Australasia, with resources of \$188,000,000, the earnings in 1922 were approximately four and a half million. The Canadian banks—I won't mention names—with resources of \$427,000,000,—their earnings were \$2,388,000, showing a tremendous falling-off in the earnings of the Canadian banks as compared with the Australian banks. Have you looked into these comparative earnings of the Canadian banks with the American banks and the Australian years?—A. No. Mr. Good.

Q. You have not looked into that at all?—A. No, I never have.

Q. Have you taken cognizance of the growing disparity of the proportion between capital and total liabilities in the last twenty years?—A. Yes.

Q. Do you think the present situation is menacing in that respect?—A. No.

Q. Do you regard it as desirable that there should be a minimum beyond which the capital should not shrink? I understand at the present time the relationship is about 4 per cent.—A. I have never considered the question; it has never been sufficiently—

Q. Would it be safe for capital to disappear entirely?—A. No; there should always be a reasonable ratio between liability and capital.

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Q. Have you examined the proportion between capital and the total liabilities on the average, say, in the American, European, and Australian banks?—A. No.

Q. Supposing you were to find that the banks elsewhere insisted upon, say, a minimum of six to one—A. That is, six to one of your capital—one-sixth of your deposits?

Q. One to six; put it that way.—A. One-sixth of your deposits?

Q. Yes, one-sixth of the total liabilities; and you found the Canadian banks had a proportion of one to 20; would you consider that perfectly satisfactory?—

A. I would consider one to six much too limited.

Q. That is, you think the capital in that case was super-abundant?—A. Yes.

Q. Mr. Ladner brought this matter to the attention of the House some weeks ago, and perhaps he will follow it up, but I have here—

MR. LADNER: One to 10.

THE WITNESS: What are the English banks, Mr. Ladner?

MR. LADNER: About the same, but in the Canadian banks you have to figure the reserve.

THE WITNESS: What about the deposits of a bank like the London City and Midland Bank as compared with its capital?

MR. LADNER: I don't know—

THE WITNESS: You look up that bank, and I think you will find it very much higher.

*By Mr. Good:*

Q. I want to bring out whether or not you have considered this matter as of some importance, because there is a very great disparity between the Canadian situation and the situations elsewhere. I have some figures here showing the capital and reserve as of 1914 at \$228,000,000, and adding the later payments for new shares \$34,000,000, making at present \$262,000,000, after making deductions for a considerable number of losses which have occurred recently—the Merchants Bank and the Home Bank, etc.—it is reduced to about \$243,000,000. During that time the liabilities have increased from \$1,323,000 to \$2,440,000; roughly, the liabilities have been doubled and the capital has remained stationary during that period of ten years. Do you think that is regrettable?—A. No.

Q. Perfectly safe and sound in your opinion?—A. Yes.

Q. No danger about that?—A. Not in the least.

Q. A suggestion was made here, Mr. Neill, that the provision for double liability should be done away with, in order to make it a little more attractive for investors and to increase the capital. What is your opinion?—A. I think the banks do not object to the double liability, although it certainly would make bank stock more popular if the double liability were removed. At the same time it is a source of added strength to the depositors, and I see no reason why the double liability should be removed.

*By Mr. Ladner:*

Q. Is it considered an asset to any extent in view of the experiences of collection in the past?—A. To a moderate extent only.

Q. Have you any idea of the figures?—A. It depends on the bank.

Q. Supposing a bank had \$25,000,000 capital, from the experience in collections in the past, to what extent would you say that could be accurately relied upon?—A. The only way you could do would be to take the experiences

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of the past as a basis. I cannot say, for instance, if a certain bank failed, what you would be likely to recover from the bank's liabilities. In some cases it might be quite considerable, in other cases it might be very small—depending on the stockholders.

*By Mr. Good:*

Q. Have you any particular objection to the proposal now being made to wipe out double liability?—A. None whatever.

Q. So far as bank premises are concerned: Have you made any comparison between the Canadian banks' investments in bank premises and those in other countries?—A. From time to time, yes.

Q. Are you aware that in the British and Continental banks the value of the premises is about 1.1 per cent of resources?—A. I don't know the figures.

Q. And that the rest of the branch banks outside of Canada and Australia have a proportion of 1.5 per cent, and in the Bank of Commerce it was 1.5 per cent, and that they wrote off one-eighth of the value per year at that time—during 1898 to 1913; during 1914 to 1923 the appropriation fell off by 73 per cent and that they are now writing off on the basis of 70 years' term of obsolescence. Have you looked into this matter at all?—A. Yes.

Q. Could you give the Committee information as to what the Royal Bank has done? Has there been less writing-off at present than fifteen years ago? A.—There has been more writing-off.

Q. A larger proportion?—A. I do not know about the larger proportion. Mr. Good, but certainly a very much larger amount.

Q. I am told the present term of obsolescence of the Bank of Montreal is 200 years. Is that right?—A. I do not know.

Q. Do you know what percentage of premises the Canadian banks have to their total resources?—A. No.

Q. You have not looked into that?—A. No.

Q. I am told it is around 3 per cent, as compared to what the other banks regard as safe, 1.5 per cent?—A. Of course, conditions in Canada and the Canadian banks are different than those of the European banks. Canadian banks have expanded very materially during the last 20 years, and for that reason it has been necessary for them to buy properties and build buildings to cover their increased activities, whereas the European banks have not been extended in the same way.

Q. Do you think there is an over amount, or too large amount of the resources of the banks' capital tied up in real estate at the present time?—A. It is quite possible mistakes have been made in some cases.

Q. What would happen in the case of a depression overtaking the banks with a lot of real estate on their hands? Would that threaten the solvency of the banks?—A. I cannot say the solvency of the bank would be threatened by the amount of real estate it owned.

Q. Supposing a bank became insolvent, what would be realized out of the bank buildings?—A. In most cases, very much less than they cost.

Q. For instance, take the Bank of Toronto, in Toronto?—A. I would not like to specify the Bank of Toronto, or any other Bank, but as a general proposition I would say that you could not recover in most cases as much as you had invested.

*By Hon. Mr. Stevens:*

Q. In buildings?—A. In buildings.

Q. That does not apply necessarily to the ground values?—A. No.



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*By Mr. Good:*

Q. I was referring to the buildings, not to the site values.—A. We have bought a number of bank properties, and it has been our experience that we never got as much out of the buildings as we expected to.

Q. Have you taken cognizance of the drift of deposits during the last few months since the failure of the Home Bank, away from certain of the smaller Canadian banks?—A. I have, but do you think, Mr. Good, it is wise for us to discuss that?

Discussion followed.

*By Mr. Good:*

Q. I shall omit some of my questions, but refer to one which has to do with the percentage of the net profits paid up by various banks during the last year or so. My opinion is that in one of the States of the Union with resources of \$593,000,000, the percentage of shareholders' profits was 1.3 per cent, and the percentage of the profits paid in dividends .53. In three banks in Australia the shareholders' profits were 1.34 per cent, and the percentage of them paid out in dividends .69. The Bank of Montreal—I cannot give the resources there, but it is immaterial—the shareholders' profits were .56. That is, less than one-half; with 97 per cent of that paid out in dividends. In the Royal Bank—Mr. Neill ought to know something about this—.62 per cent, with 96 per cent paid out in dividends. The Bank of Commerce, .62 per cent, with 93 per cent paid out in dividends. I want to ask if you have looked into these matters, and if you have any opinion to give to the Committee as to whether these figures are right, and if something should not be done, and if that does not indicate a situation which requires some remedy. If my information is correct, this comparison shows that the situation in Canada is not as good—A. It shows the Canadian banks are not making a large profit, which is absolutely the case.

Q. Why should they be paying out all of the net profits in dividends?—A. because it makes provision for their debts, and after making a provision for them, and all necessary appropriations, there is no need why they should not give to the shareholders—having built their reserves up almost equal to capital—

Q. The only question I wish to raise is a general question. I am not satisfied to let these matters proceed, but after what has happened, I think that as representatives of the public they should be informed as to what the facts are, but they have no means of knowing. Mr. Neill does know about a lot of these matters, and I think this Committee ought to know from somebody what the situation is, so that we may take the proper remedies; otherwise I see a repetition of what has happened in the last few years.

*By Mr. Ladner:*

Q. Mr. Good covered a part of this, but I want to ask one question in regard to double liability. Is double liability considered as an asset in any of the bank statements?—A. No.

Q. You have not information regarding the amounts collected in double liability in connection with bank failures during the past three years?—A. No.

Q. In your opinion does the double liability in Canada act as a deterrent to investors in the capital of bank shares?—A. Yes.

Q. Do you think it is in the interest of the public and the banking business to repeal that clause?—A. No.

Q. Well, in experience, little has been collected, as I understand it, from the double liability clause in the case of banks which have failed. Strong banks, of course, do not fail. That is correct, is it not?—A. Yes.

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Q. You have told us that it does act as a deterrent to the investment of capital. Where is the justice or wisdom of saddling really innocent shareholders with a double liability if it is neither an asset of the bank and at the same time is a deterrent to the investment of capital?—A. It is an asset to some extent.

Q. To what extent?—A. That depends on the responsibility of the shareholders.

Q. It is very limited, is it not?—A. It is, but it is conceivable that you might collect the full amount.

Q. If business should develop in Canada during the next 13 years in the way it has developed during the past 13 years, just about three times as much, while capital has increased 23 per cent—do you not think it would be wise if we could encourage the investment of capital by eliminating the double liability?—A. So far as the double liability is concerned, it certainly adds some strength to what is there for the creditors. Take the bank which I represent; we have a capital of \$20,000,000; we have a reserve of approximately \$20,000,000. Suppose you only collected 50 per cent of the capital under the double liability, there would be another \$10,000,000, which would give a margin of \$50,000,000 before the depositors would suffer.

Q. But these large institutions do not fail. Take the instance of the Home Bank which did fail; the amount collected is very small, is it not?—A. You cannot tell how much is going to be collected in the Home Bank yet. Mr. Ross informs me that 90 per cent of the double liability in the Bank of Yarmouth was collected and 93 per cent in the Bank of Ontario was collected.

Q. How much in the Farmers' Bank?—A. I do not know, I have not the figures.

Mr. Ross: I have no knowledge of that case.

WITNESS: As a matter of fact, speaking from the standpoint of the banks, we would like to be relieved of the double liability. On the other hand, it undoubtedly safeguards the public and the depositors to a certain extent, and perhaps they are entitled to it. So far as the banks are concerned, obviously, we would like to see the double liability clause removed. At the same time, we would never ask for that because it is an added strength to the depositors.

Q. Now, a proposal has been made to work out on the insurance principle the protection of a special class of savings accounts up to \$3,000, so that the average person who wants protection can go to the bank and instead of taking the regular 3 per cent interest, he would take the class of savings account where the percentage of interest would be a little less, and in that way he would contribute towards the premium. Generally speaking, that is the proposal. Do you think that something along that line would be worked out to the advantage of both the banks and the public?—A. I am afraid it would be impracticable, and misleading. I do not know what the proposal really is; I have not studied it, and have no knowledge of it.

Q. Along the lines of the banks' circulation redemption fund?—A. Can you make any fund large enough to protect the small depositors? How much would you have to have; how much would the banks have to put up?

Q. It would apply to depositors with \$3,000 and under. Have you any idea of how much that represents in the total deposits of the banks?—A. Of the savings accounts, between 75 and 80 per cent. The Bankers' Association have prepared data on that point, and it shows that the small depositor in the savings accounts in the banks is a very material factor.

Q. Have you worked it out on the basis of deposits of \$3,000 and under?—A. It is for six banks, but they would not be the six largest banks, because

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in our own case we did not take every branch; it is too much to do. We took some of the branches which we considered good examples.

Q. To represent the average?—A. Yes.

Q. This statement applies to deposits of \$3,000?—A. Seventy-eight per cent. Between \$3,000 and \$5,000, 12 per cent, and in the case of \$5,000, only 10 per cent. Therefore, if you are going to protect 90 per cent of the savings of depositors in Canada your fund must be enormous.

*By Mr. Good:*

Q. Why should it be enormous if the percentage of losses is small?—A. You mean if a small bank fails?

Q. No, why should the fund be enormous if the percentage of losses on the average is small?—A. I do not know what Mr. Ladner's scheme is. He says it would be a fund like the bank circulation redemption fund.

*By Mr. Ladner:*

Q. The proposal is this, that in addition to your existing system with its different accounts, current and savings accounts, you create a special savings guarantee, or whatever you care to call it, to protect the savings account which would draw less interest than the regular savings accounts so that people who sought protection would know that the money was there when they wanted it—where they could put their money and up to the sum of \$3,000 or less they would be protected by an insurance fund worked out on an actuarial basis upon past experience, with the rate of insurance calculated in that way; in that manner, the depositor paying a portion, and perhaps the bank paying a portion to that special account because they would have some benefit. That would constitute the premium and to the extent of that fund the protection would be given. That is the proposal?—A. Is not that just guaranteeing in a different form deposits, and you know that the guaranteeing of deposits has been very disastrous.

Q. We had Mr. Skelton Williams here the other day, and Mr. Pole to explain the guarantee of deposits in the United States. This is a limited guarantee, limited to the extent of the fund, in the first instance?—A. You do not think it would be misleading?

Q. Why would it be misleading to state to the public what it is?—A. Supposing a large bank had \$1,000,000 of deposits, and supposing that bank failed and lost everything; what insurance fund could ever protect these depositors?

Q. It is very unlikely that it would work out that way?—A. It is unlikely, but it is a possibility.

Q. Do you not think that the banks which had the responsibility for that particular fund would perhaps invest a certain portion of the deposits in such a way that they would really be a protection for that fund?—A. I think this, that any guarantee of deposits or insurance of deposits—any scheme of that kind lends itself to bad banking.

Q. In what way?—A. The management in some cases. It is quite conceivable that if the management of a bank thought the depositors were going to be paid they would take greater risks in making their loans and in conducting the affairs of the bank.

Q. They would also have their responsibility?—A. Yes, but I think it has been generally understood and taken as an accepted fact that the insurance or guarantee of deposits is apt to lead to unsound banking.

Q. Mr. Skelton Williams who was here the other day is a former Comptroller of Currency in the United States. He was Comptroller of Currency for seven years, and he has worked it out that in the United States they can guarantee deposits in that way up to \$5,000 at a rate of \$25 per million dollars and be absolutely protected.—A. Where would they be insured?

Q. They would work out their own insurance scheme on an actuarial basis on past experience.

Q. Is there any information that you have, or that Mr. Ross may have, with regard to the difficulties in this country, now that we have the information that 78 per cent of the deposits are in accounts of \$3,000 and under? Is there any information available?—A. No information at all, so far as I know.

Q. My point is this, and it is greatly strengthened by the information that we have that 78 per cent of the deposits are held by people with accounts of \$3,000 and under—it shows that the mass of the people are putting their money in in that way—do you not think it would be a help to the banking institutions themselves to have some scheme of protection?—A. No, I do not know, because I am afraid it is not practicable. I do not see how it could work out. If you can show me how a scheme of that kind would be worked out, I am sure that the banks would be glad to consider it; but I do not think it is practicable.

Q. But Mr. Skelton Williams who for seven years was Comptroller of United States Currency, and who is, apparently, a very expert man, has worked it out and recommended it to Congress. Would not that be good authority?—A. It certainly would, but there might be another authority equally as strong as Mr. Williams who might say it was wrong.

Q. In view of the situation in this country as we all know it, do you think it would serve a purpose if authorities like Mr. Williams and others behind the idea, if some committee of experts could say whether a proposal like that would be practicable in Canada, or could be worked out to the advantage of the public as well as to the banks?—A. No, I am afraid I do not think it would be advisable to do that, because I do not think any acceptable scheme could be worked out.

*By Mr. Good:*

Q. Would you be prepared to study it?—A. Absolutely, I am prepared to study anything that is constructive and give it the best consideration.

*By Mr. Ladner:*

Q. I am trying to contribute something toward the solution of the subject. I do not know much about the subject, but with the authority of Mr. Skelton Williams and experts like him, do you not think you might be able to work out a scheme?—A. I do not think we could, but there is no reason why we should be prepared to receive any constructive scheme that may be submitted.

Q. Could not some one of the bankers bend their expert knowledge to some idea of that kind?—A. They might, but I do not think they would like the idea; they do not believe in it.

Q. Has any calculation been made on which you could base your opinion that the scheme is not practicable?—A. No, the only thing we base our opinion on is I think what has occurred in the case of deposits which have been guaranteed.

Q. That is very different in the United States. In the United States all the deposits are guaranteed?—A. Yes. Is not the principle the same?

Q. No, because down there all deposits, current and savings, are guaranteed. Is that right?—A. I think so.

Mr. Ross: No, the class of deposits guaranteed were not savings. Anything that got interest was not guaranteed.

*By Mr. Ladner:*

Q. That is simply a guarantee of good and bad business; that is a different proposal altogether. Down there they guaranteed what we call the current



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account; that is the accounts of men engaged in business and ventures of business. This proposal is to guarantee the man who pays his money to get it?—A. All I can say is, as I said before, I do not think, I am afraid the scheme is not practicable; but if you can work out any kind of scheme that is constructive, I am sure that all the banks would only be too glad to discuss it with you.

Q. The Bankers' Association have issued a pamphlet in which they endeavour to show the impracticability of such a proposal by comparing it with schemes that have been worked out in the United States. I want to draw to your attention and to the attention of the Committee that the two proposals are entirely different. As Mr. Ross states one protects the current accounts, and this protects the savings accounts?—A. I think the thing for you to do would be to make a statement showing what the situation was as regards the guarantee of deposits in the United States and what your proposal is. It is not clear to me how you can do it. If you can tell us how you can do it, I would be very glad to give you my opinion for what it is worth.

*By Mr. W. F. Maclean:*

Q. Are you in favour of priorities of this kind in connection with banks?—A. No.

Q. Are there any priorities in the banks?—A. The Government deposits, yes.

Q. And is not the bank note circulation also a priority?—A. Yes.

Q. It has to be paid out of the deposits?—A. Yes.

Q. Would it not be much better for the safety of the public if we had, as they have in the United States, banks only using national currency?—A. I am not in favour of the banks giving up their circulation privileges.

Q. But the public are perhaps in favour of it. Now, Mr. Neill, you said you were in favour of bank inspection if it was thorough. Is that your opinion—if it was efficient.—A. Yes.

Q. Would you consider the national system of bank inspection, the system of inspecting National Banks in the United States efficient?—A. So far as I am informed with regard to it, I would say it was efficient.

Q. And practically it does not do any injury to the banks?—A. So far as I know, it does not.

Q. They have a system whereby the examiner can go into a bank whenever he likes?—A. Yes, to the National Banks.

Q. About mergers, we have had quite a number of mergers of banks in this country? That is a fact—A. Yes.

Q. And there is talk of other mergers in this country. How many banks have we now?—A. Fourteen.

Q. Ought there to be any limitation of mergers in this country?—A. I should think so.

Q. Where would you place it? —A. That depends on circumstances. I think that if a bank is in bad shape it is very much better for it to merge than to fail.

Q. I might agree with you in that. In connection with the Home Bank there was some proposition with regard to merging it, but it probably came too late. Was there not an appeal made to the banks generally to try and save that bank?—A. Not so far as I know.

Q. You are in favour of bank inspection if it is efficient and you have no great objection to the system of Federal bank examination in the United States as applied to National Banks?—A. I do not think that the United States system can be introduced into Canada. They have unit banks and we have branch banks.

[Mr. C. E. Neill.]

Q. That brings up the question whether the system of branch banks is the best for Canada?—A. That may be.

Q. What is your opinion about that?—A. I am a believer in the branch bank system.

*By Hon. Mr. Stevens:*

Q. Mr. Neill, I would like to ask just a few questions. First, in regard to bank examination, you used the word "efficient." I would ask you this: You say you would not object to Government examination if it were efficient?—A. And reasonable.

Q. In subsection 10, of Section 56, there is a very important clause in regard to the present audit system, having reference to the auditors calling for certain reports to be made to directors and managers by the auditors under certain conditions?—A. Yes.

Q. Do you see any objection to the making of that same report to the Minister?—A. No.

Q. You see no objection to that?—A. No.

Q. If we had under the Minister in the Finance Department a competent officer whose duty it was to review such reports and study them, do you see any objection to that officer having the additional authority of enter and examine the head office accounts?—A. None whatever, so long as he a competent man.

Q. Or certain other branches that he might wish to examine in order to keep a check?—A. None whatever. I believe that any competent man appointed by the Government could go into the head office of any bank in Canada, and in a very short time he could decide whether that bank is solvent or not. I have no hesitation in saying that.

Q. You mentioned efficiency; would you mind giving to the Committee what the interpretation of what an efficient officer is; not only an efficient officer, but an efficient method, having in mind what you have just said.—A. You mean in the event of the Minister of Finance appointing an inspector whose duty it would be to go into the head offices of the different banks? I should think that an efficient officer would be a bank officer of experience, a man who has had experience at a branch, who has had experience in loaning money, who has had experience in valuing assets, and who also has had head office experience, because head office experience is necessary in order that he may be able to take a bird's eye view of the situation.

Q. You think that such an officer is obtainable in Canada?—A. I should say so.

*By Mr. W. F. Maclean:*

Q. Under whose orders?—A. The Minister of Finance.

*By Hon. Mr. Stevens:*

Q. Such an officer put under the control and employment, shall I say, of the Minister of Finance, or the Government and wholly responsible to the Minister of Finance?—A. Yes.

Q. Not responsible to the banks at all?—A. No.

*By Mr. W. F. Maclean:*

Q. My point is that there ought to be an officer of that character who would imperatively perform those duties if he sees fit to do so. He is only to be subject to the Minister of Finance?—A. There is no objection to that.

Q. In the United States the examiners do it, and must do it?—A. That is quite acceptable.

[Mr. C. E. Neill.]



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*By Hon. Mr. Stevens:*

Q. That is what my question was intended to bring out, that this examiner, if such an examiner is appointed, should be responsible to the Minister representing the Government, and have the full authority to make those examinations?—A. It should be his obligation to go into every bank and do it so that there would be no picking out of one bank as against another.

Q. Your bank has branches in the United States?—A. In New York.

Q. You have had some personal experience of the examination system in the United States?—A. Very limited, they do not bother us much.

Q. Having in mind your knowledge of the banking system over there, do you know anything about the clearing house inspection system?—A. I have a very limited knowledge, Mr. Stevens; I know that in New York the clearing house privileges are very closely guarded to American banks. It is very difficult to get into the New York clearing house, and in order to protect themselves, they have the privilege, when a bank comes into the clearing house, to say "We demand the privilege of coming in and inspecting you as a clearing house any time you want to."

Q. That is apart from the State examination?—A. Yes.

*By Mr. W. F. Maclean:*

Q. It is not a part of the Federal Reserve System?—A. Nothing to do with it; the clearing house does that.

*By Hon. Mr. Stevens:*

Q. It has nothing to do with the Government or State examination of reserve banks or any State system?—A. None whatever. That examination is made whenever the clearing house deems it advisable to do so.—Q. It is controlled wholly by the clearing house the members of which are member banks?—A. Yes.

*By the Chairman:*

Q. Members of the National or State Banks?—A. National, I think. I am not really sure. But that is my impression and I think I am right.

*By Hon. Mr. Stevens:*

Q. I do not think it is limited to National Banks. Do you know how many cities practise this clearing house examination?—A. No, I do not know. I think Chicago and New York. I think most of the larger cities have it, but I am just guessing when I say that.

Q. Is that looked upon as an additional safeguard to the public and the banks?—A. I should say so.

Q. To the general State examination?—A. I should say so.

Q. In regard to the Canadian system of examination would you mind giving to the Committee briefly an outline of the Canadian banking system inspection; that is taking your internal banking inspection, your double audit, and the clearing house inspection in Canada?—A. We have no clearing house inspection in Canada.

MR. W. F. MACLEAN: That is the very point I want to raise. Why not have it here?

WITNESS: It would not be practicable here. We have discussed that among ourselves, a system of clearing house examination. For instance, in Montreal, it would not be practicable in the same way as in New York because there you have the business of the bank under the one roof. A clearing house examination would not be a satisfactory examination for banks with branches all over the country.

*Hon. Mr. Stevens:*

Q. Would you mind dealing with the system of inspection we have here?—A. Under the system of internal inspection—the Canadian banks have all an elaborate system of internal inspection; every bank must be inspected once or twice each year, or perhaps oftener by a competent man who goes into the business very thoroughly. They count the cash, they certify to the securities of all the assets, and they value the assets. These inspection reports come to the head office and are studied by the credit department there, and any weaknesses are pointed out to the manager, and those weaknesses are rectified if at all possible. The auditors appointed by the shareholders, so far as our bank is concerned are practically in the bank from the 1st of January until the 1st of December. They are very thorough, they have access to the general ledger in the head office, to the Government returns, to all branch returns, to the inspection returns, and to all correspondence. For instance, if the general manager's department criticise a manager for making a bad loan, where the loan is of any magnitude, the auditors see that and are able from that correspondence to determine whether the loan is a good or a bad one.

Q. As a matter of practice, do they examine that correspondence?—A. Very carefully in certain accounts. It is a comparatively easy matter for a competent auditor, to take the branch liabilities return and to size up in a very short time the weak accounts in that return, the large weak accounts; the small weak accounts make no difference. A bank never fails because of the small accounts; it is always when there are three or four big accounts weak that they go bad.

Q. In regard to the change made last year, making the audit dual, what effect has that had in practice?—A. I can only say that in our case it has meant the appointment of another firm of auditors. Before we had two; now we have three, and we have to rotate. We have three different firms to pass on our assets.

Q. In your experience of the past year, have you found any reports from the auditors regarding accounts that did not occur before?—A. Yes, the auditors made certain reports under the revised Bank Act to the directors of the bank; they made special reports of accounts over one per cent, I think, of the capital.

Q. Now, in regard to the terms of our Finance Act, as compared with the Federal Reserve Act, you will recall that our Finance Act gives certain privileges to the banks, in sections 2 and 3, permitting virtually the discount?—A. Yes.

Q. Would you compare the terms of our Finance Act and its facilities, briefly, with the Federal Reserve discounting system?—A. My opinion is that as far as the needs of Canada and the Canadian banks, and the Canadian public are concerned, that the re-discounting facilities granted by the Finance Act are quite satisfactory—all we need.

Q. Do you take advantage of it?—A. We do.

Q. Do most of the banks?—A. At certain times.

Q. You find it a convenience in doing business in supplying additional credits in rush periods?—A. Yes, a great convenience, and it works admirably.

Q. And you consider, having in mind the Branch Bank System in Canada, as compared with the Unit Bank System of the United States, this is a fair corollary of the Reserve System over there?—A. Yes, it answers our purpose to the same degree, and possibly to a better extent than the Federal Reserve Bank answers the purposes of the banks in the United States.

Q. What have you to say, Mr. Neill, as to the charge that with the branch bank system, the districts served by remoter branches suffer as compared with

[Mr. C. E. Neill.]



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the central districts?—A. I do not think there is any ground for such a statement.

Q. Would you care to give any reason for that?—A. We endeavour to take care of our customers—the banks all endeavour to take care of their customers to the fullest extent possible.

Q. Would you say whether there is any comparison as to depositors in any given district—say my own province of British Columbia—as to the difference between the loans and deposits?—A. I should say that in British Columbia the deposits are higher than the loans.

Q. That would come from the east?—A. No, the deposits come from British Columbia. I think the British Columbia deposits are higher than the loans.

Q. Do you consider there is any suffering locally because of that?—A. No.

Q. Have you any complaints?—A. We have complaints, yes, but no legitimate complaints. You will always have complaints if you do not lend enough money.

Q. Having in mind that the west is a developing district—British Columbia, for instance—do you think it would be desirable to provide for the maximum of loans there?—A. We will be only too glad to, when we have good loans offered.

Q. That is a question of collateral?—A. British Columbia is not a manufacturing centre, Mr. Stevens—.

Q. Be careful about making that statement—A. I think a great deal depends on the nature of the province.

Q. I cited British Columbia not because I live there but merely as a unit. How about the other three western provinces? How will the loans and deposits compare?—A. I think in the middle west the people have a larger proportion of loans than any other district.

Q. As compared with their deposits?—A. Yes, I think they have received much the most liberal treatment.

*By Mr. Hanson:*

Q. How about the Maritime Provinces?—A. Of course, the Maritime Provinces are really more of a depositing centre than a loan centre.

*By Hon. Mr. Stevens:*

Q. In regard to the Finance Act, Mr. Neill, and provision for discounting: what are the demands made by the Department of Finance as regards securities?—A. The securities are specified in the Act, and the banks really apply for a loan on credit, and put up their securities, and get it when they need it.

Q. What do they get?—A. Legal tender.

Q. Yes, but what form does it take?—A. Legal tender—we put up our Dominion bonds—

Q. Dominion notes?—A. Yes.

Q. What do you do with them?

MR. MACLEAN: Convert them into bank notes.

THE WITNESS: We use them.

*By Mr. Shaw:*

Q. Do you take them to the Gold Reserve and get bank notes?—A. Yes, they are used in our business, to take care of our loans.

*By Mr. W. F. Maclean:*

Q. In the Central Gold Reserve?—A. Yes, we deposit them in the Central Gold Reserve.

Q. And your circulation takes the place of legal tender?—A. No, our circulation is covered by legal tender over paid-up capital. As far as we are concerned we could just as well circulate the small legal tender over the amount of paid-up capital. We get no advantage whatever out of circulations over our paid-up capital.

*By Hon. Mr. Stevens:*

Q. In other words, if you re-discount and get legal tender issue of your own notes, you can only issue to the amount of the legal tender you receive?—

A. We can issue our own notes up to our paid-up capital—in our case, \$20,000,000—and any issue over that we have to issue from the Gold Reserve, which in the case of the Government of Canada gets the advantage of that circulation. While our notes may be circulating, the Government of Canada gets the benefit of it. They get the profit on it.

Q. Speaking of that profit, Mr. Skelton Williams stated that the Federal Reserve Bank since 1913 had earned for the Government in profit \$135,000,000; is there any comparative earnings in Canada under our Finance Act system?—

A. Yes, the Government makes very important profits out of the Finance Act.

Q. Have you any records or figures on it?—A. Yes, I think I have a statement here of what the Government has made.

Q. I think that would be very interesting.—A.

INTEREST RECEIVED BY THE GOVERNMENT ON LOANS TO BANKS UNDER THE  
FINANCE ACT

<i>Year</i>	<i>Amount</i>
1914-15.. . . . .	\$ 211,551 97
1915-16.. . . . .	62,722 49
1916-17.. . . . .	177,690 24
1917-18.. . . . .	869,125 83
1918-19.. . . . .	2,471,593 02
1919-20.. . . . .	3,399,110 84
1920-21.. . . . .	3,644,056 72
1921-22.. . . . .	2,426,342 01
1922-23.. . . . .	1,249,677 90
1923-24.. . . . .	775,170 38
1924-25 to date.. . . . .	10,306 26
	<hr/>
	\$15,297,347 66

*By Mr. Sales:*

Q. In 10 years?—A. Since 1914, when it was started.

*By Hon. Mr. Stevens:*

Q. The Act came in in 1914, yes. It is a corresponding profit to the Government of the United States?—A. You must understand, this, that the Federal Reserve Bank in the United States has a wonderful system, and has built up a great organization, and the profits of that system are principally due to re-discounting. If money gets easy, it means that source of profit will not be there.

Q. It will diminish?—A. Yes; as a matter of fact that class of profits is diminishing pretty much today. I was in New York last week and I was told by a banker that the Federal Reserve was working itself into such a position that possibly it would not make enough to pay its expenses. I do not know if that is the case or not; that is just hearsay.

Q. Let me ask you a question on that. For instance, yesterday I think call loan money in New York was 3 to 3½?—A. 2½, the day before.



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Q. I know it has been very low for some time. Your point is this; when call money and term money, which I think was quoted yesterday at 4, is at that rate of interest, then the re-discounting privileges of the Federal Reserve will not be taken advantage of?—A. No.

Q. Until that market money is absorbed. And this period during which the Federal Reserve made \$135,000,000, the profits would be during the same period when the Finance Act in Canada showed a large profit?—A. Yes. When money gets easy in Canada, you will find the Government will not make as much money out of the Finance Act as when money was tight.

Q. In other words, the Federal Reserve System produces earnings in corresponding ratio to the same shown in this statement of the Finance Act?—A. I have not made a comparison, but generally speaking, that is correct.

Q. And of course this \$135,000,000 profit of the Federal Reserve Banks, represents the huge business of the United States, and shows that the Canadian Finance Act and re-discounting system of \$15,000,000 is a fair—A. Obviously we have no expenses in Canada. In the United States, they have great expenses, to keep the organization going.

Q. You mean no expense to the Government?—A. No.

Q. All expenses paid by the bank?—A. I don't know what expense there could be. The expense of the Central Gold Reserve is paid by the bank.

Q. I want to ask one more question regarding the capital and its ratio to liabilities. This has been brought up on two or three occasions, Mr. Neill. It has been pointed out that the Canadian bank's capital as compared to their liabilities is not nearly so high to-day as it was in 1913, at the time of the last revision of the Bank Act. I think I can put this without being too long. The capital of the Canadian banks was mostly subscribed for and paid in prior to the war. There has been comparatively little since—of new capital?—A. Yes.

Q. Then the capital—that is, the figures or the amount stated in the bank statement would not increase with the inflation of currency?—A. No.

Q. The figures would remain about the same—that is, the figures representing your liabilities and assets would, with the inflation of currency, increase rapidly?—A. Yes.

Q. Without a necessarily accompanying increase of value. Do you see my point?—A. Yes, I see your point.

Q. In other words, I think Fisher's Index shows that the dollar to-day is worth about 58 or 60 cents—

An Hon. MEMBER: 58 cents.

Hon. Mr. STEVENS: Well, we will say 60 cents for illustration. It varies, of course. Your capital to-day is virtually the same as it was before the war, still remaining at the figure of 100?

The WITNESS: Yes.

*By Hon. Mr. Stevens:*

Q. And your liabilities, by this inflation apparently, common to the whole world, and the purchasing power of a dollar being 60 cents, in order to make a fair comparison, your capital should be reduced to 60 per cent?—A. I do not like to answer a question like that offhand. In comparing capital with total liabilities I think it is hardly fair to compare it with Australia or South Africa or even the United States or Great Britain or France. These figures could be prepared and submitted to the Committee, and I think the Committee would find that the ratio in Canada is quite satisfactory.

[Mr. C. E. Neill.]

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Q. I was going to ask you a question regarding the figures quoted by Mr. Good about earnings and distribution. When you say "net earnings" you have already provided for bad debts, contingencies, depreciation and reserve?—A. Not depreciation; for bad debts, and all expenses, yes. Depreciation and bank premises are shown on our statements, as a rule; some banks show them and some banks do not.

Q. When you show a net earning of your bank, you distributed 96 per cent, as Mr. Good says—A. Yes.

Q. —would that figure of net earnings in your bank statements be the net earnings after making provision for bad debts and contingencies?—A. Yes.

Q. Now, the figures regarding the Australian situation—this is merely a question of accounting, or method of accounting—sometimes an accountant will show the net earnings and make his provisions afterwards.—A. You have to compare the statements of the different banks. You could not make a comparison offhand, because the procedure varies in the different banks.

Q. And therefore, without having before you the exact statement of the Australian—A. You could not make a correct comparison. It might be misleading.

Mr. Good: I protest against any insinuation that my statement was misleading.

Hon. Mr. STEVENS: I was not suggesting it was misleading. I am sorry Mr. Good has taken offence. I say there are two systems, perhaps not of accountancy, but two methods by which an accountant will show the final workings-out of his statement, one accountant or auditor might show the net earnings before he makes provision for certain contingencies or bad debts, or depreciation; another might make it after, and I say that in the absence of that knowledge you cannot make a fair comparison.

*By Mr. Irvine:*

Q. Do you know the habit of the Australian banks?

Hon. Mr. STEVENS: I have never met two auditors who did not make the final outcome of their statements a little different.

Q. You would have to have his profit and loss account before you, to determine that fact?—A. Yes.

Hon. Mr. STEVENS: This is no reflection upon anybody. Is it simply a question of how they would bring out their final figures.

Q. I want to ask a question or two in regard to these statements. I will ask you first as to the figures; there is a resolution here by Mr. Coote in regard to which I might say that personally I have a great deal of sympathy with and support for it in a general way. It reads as follows:

"That in the opinion of this Committee, legislation should be brought down this session to provide for the establishment of long-term rural credits."

As a banker, do you recognize the need for providing, particularly in certain agricultural districts of the country, for long-term rural credits, which are not now covered by any possible banking provision?—A. I do.

Q. Would you have any criticism or objection to a measure, having that end in view?—A. I would approve of it.

Hon. Mr. STEVENS: I am very glad to get that statement.

Q. I would like to ask you for an expression of opinion, if you care to make one, or any suggestion, Mr. Neill, in that regard.—A. I will again quote, if you will permit me, from what I said at our Annual Meeting:—

[Mr. C. E. Neill.]



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"Undoubtedly there is, as has been stated, a barren area of credit in the Prairie Provinces, but the credit on land required there can not legitimately be supplied by banks. Such loans as are required for the development of farm properties are almost a form of capital investment and can be repaid by the borrowers only over a lengthy period. The imperative duty of the banks to their depositors is to avoid just this class of business. Deposits, repayable on demand must be utilized in loans which are quickly collectable. Long-term loans against land must be provided by companies constituted for that purpose. It is gratifying to know that the Dominion Government have appointed a commission to study the whole question, and it is clearly the duty of banks to encourage actively any sound scheme that may be put forward in this connection."

Q. Then you and your associates, Mr. Neill, will be very glad to co-operate—A. In every way we can, because what is in the interest of the country, is in the interest of the banks.

Q. There is another resolution suggested, which I wish to ask your opinion on. It is a resolution by Mr. Garland, and reads as follows:—

"That Schedule "G" of the Bank Act under the caption 'Assets' be amended by adding thereto the following items:—'Appropriation Account,' 'Contingent Reserves,' 'Undistributed Profits'."

In other words, this calls for a disclosure of these statements. Would you mind again telling the Committee, as I think you did last year, your reason for objecting to that being included—if you still have that objection?—A. I think the contingent or secret fund of the bank should not be made public. There are many reasons why they should not be. In the first place, a comparison would be made between certain banks, and banks which had a very large contingent fund might be compared unfavourably with banks with a smaller contingent fund, whereas in some cases, a prudent banker might consider it advisable to write off debts which looked a trifle doubtful, and another banker might not think it so necessary to make such an appropriation. The contingent funds of one bank might be larger than the contingent funds of another bank, and at the same time the actual position of the banks might not be very different. Everything depends on the wisdom of the men who are writing down the doubtful accounts.

Q. Your bank, like all banks, is distributed all over Canada. Assuming there comes a very serious industrial and financial collapse, we will say in British Columbia, or Nova Scotia—in any of the provinces—or any section of the country, and your branches in that district realize serious losses on loans made there, would you absorb those losses out of your contingent fund? Is that the purpose of the fund—partly?—A. Yes. If we did not have enough profits from year to year to absorb them, we would absorb them out of the contingent fund, and in that way at the end of the year there might be a very serious reduction in our contingent fund, and that might be wrongly construed by the public. They might say, "That bank has had serious losses, and it has weakened its position." I must say, that I can see no possible good to be served by making public the figures of your inside reserve.

Q. You consider it then, sound banking and sound business principles to follow, to make provision in what you might call favourable times for shrinkage and losses in reclaiming bad periods?—A. There can be no question on that subject.

Q. You also think it is unfair to publish these, because of the comparison, for instance, of the newer institutions with the contingent funds of perhaps a

[Mr. C. E. Neill.]

large and old established institution?—A. I cannot see that any good purpose would be served by publishing these, and certainly it is safer not to publish them.

Q. Let me put a final question on that point. What do you say to the criticism that contingent funds and hidden resources are, speaking from a business standpoint, immoral or bad and unsound in principle?—A. I cannot conceive why any one should think they would be unsound or immoral. I think they are necessary.

Q. And quite sound and proper?—A. Quite.

Q. That is your opinion?—A. Quite.

Q. Then here is another resolution which reads as follows:—

“That the Bank Act be amended to provide that the moneys in the Circulation Fund shall first be applied to the payment of the notes of a bank which has suspended payment and that the other assets of the bank be not applied to the payment of such notes until the moneys in the said fund are first exhausted.”

In other words, that the profits of the note circulation redemption fund shall be wholly applied to the redemption of notes of a defunct bank, before its assets are touched?—A. I do not see why the other banks should be asked to pay the note liability of the failed bank. That is what it would amount to.

Q. The point raised is this—I am not giving you my opinion; I am putting the point as it has been argued—that this fund is created for the purpose of the redemption of these notes?—A. As quickly as possible.

Q. Therefore it should be that fund first applied to for the redemption of notes?—A. Yes. That is right, I think.

*By Mr. Shaw:*

Q. It may be only temporary?—A. Yes, but these funds are reimbursed by the bank again? I don't think I quite get what is meant by that resolution. Does it mean that the notes will be paid out of the fund, and the fund reimbursed by the other banks?

*By Hon. Mr. Stevens:*

Q. Put it this way. The Home Bank failed, and the contention is that the note redemption fund should have been applied to the redemption of the Home Bank notes without an appeal to the assets for that purpose?—A. Would the fund be reimbursed out of the assets of the bank?

Q. And then they claim that all of the assets of the bank, provided there is enough in the fund to redeem the notes, shall be applied to the payment of depositors?—A. In other words, if there was not enough to pay the depositors, the bank circulation fund would have to be built up again by the other banks? I do not see why the other banks should be taxed to pay the note liability of a failed bank.

*By Mr. Irvine:*

Q. Then you do not protect your notes?—A. In case there were not enough assets to pay them—

*By Hon. Mr. Stevens:*

Q. Let me put it this way: Is the bank circulation redemption fund provided by the bank to supplement the assets of a bank that has failed, for the purpose of protecting the note circulation only? That is, if the assets are exhausted and the notes are not paid?—A. Then the bank has to pay, but not until the assets are exhausted—perhaps I don't understand your question. I know how the fund works.

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Q. Well, put it in your own words?—A. The notes of a failed bank, if necessary, are paid out of its funds. Then the fund is reimbursed, eventually through the recovery on the assets of the bank.

*By Mr. Shaw:*

Q. Giving notes first priority on the assets of the bank?—A. Yes.

Q. So the real question is, are you going to remove the priority of the notes?—A. I do not see why you should.

Q. In so far as the circulation and redemption fund is concerned?—A. I do not see why you should.

*By Mr. Hanson:*

Q. If you remove the priority, what effect would it have on the circulation of bank notes?—A. You would not be satisfied that bank notes were good.

*By Mr. Shaw:*

Q. But if the fund used in maintaining— A. There is no reason why the fund should not be used, provided the fund is reimbursed from the assets of the bank.

*By Mr. Hanson:*

Q. As a matter of fact, that is a protection—

*By Hon Mr. Stevens:*

Q. You hold the assets of the bank should be exhausted before the redemption fund is permanently called upon?

*By Mr. Spencer:*

Q. And the depositors are called upon to pay?

Mr. MACLEAN: Or in other words, that the national notes are much better than the individual circulation. Have you any objection to the substitution of national notes for your own currency?

The WITNESS: Yes.

*By Mr. Maclean:*

Q. Why?—A. Because I think that is a privilege the banks should have

*By Mr. Woodsworth:*

Q. Mr. Neill, as I understand, you are not opposed to the double liability arrangement?—A. No, from the standpoint of the bankers naturally I would like to see it removed, but I do not think the bank would make a very strong point of it.

Q. You are in favour of keeping certain of the operations of the bank within the knowledge merely of the Directors?—A. Yes.

Q. Is it fair to the shareholders to saddle them with the double liability when they are kept in ignorance of certain of the banks' transactions?—A. I think it is in the interest of the shareholders to keep them ignorant of certain transactions, such as I named, the contingent fund, etc.

Q. But is it quite fair to them to expect them to pay double when they are in ignorance of what may be certain essential facts?—A. That would be for the shareholders to judge for themselves. Their remedy would be not to buy bank shares.

Q. But if they buy them, they ought to buy them with the full knowledge that they would be deprived of the knowledge of certain essential facts?—A. I think most shareholders know they never get information regarding contingent funds.

*By Mr. Shaw:*

Q. But shares are not sold under that arrangement?—A. No.

*By Mr. Woodsworth:*

Q. Might I ask you this, Mr. Neill, whether the Bankers Association would consent to the repealing of the Finance Act?—A. They would not like it repealed. The Bankers' Association, I know, are practically unanimous in the belief that the Finance Act fills the needs of this country admirably, and they would not like to see it repealed.

Q. You stated that the Government itself had made a profit of some \$15,000,000 odd?—A. Yes.

Q. That, I take it, would represent the five per cent interest that was charged?—A. Yes.

Q. If I understood you, you represented that the banks did not profit?—A. The banks would profit to some extent; the banks have that much extra money to lend.

Q. They would get eight per cent or ten per cent while the Government only gets five per cent?—A. They would not get that much. They would make a small profit over the five per cent, and in some cases they would not make very much profit. We take advantage of the Finance Act during the crop season because we have not the money to handle the crop otherwise. Very often we get six per cent.

Q. If these \$15,000,000 representing five per cent on the advances comes to the Government from just an occasional extra issue, would it not mean that if the Government issued all currency there would be a very great gain to the Government?—A. I suppose the Government would make some profit if they took away the circulating privileges from the banks; they would make a certain amount of profit.

Q. Much greater than \$15,000,000?—A. I would say so, yes.

Q. That \$15,000,000 of profit is in the extra advances?—A. It would be a bad thing for the country if the Government did take away the circulating privileges from the banks.

*By Mr. Garland:*

Q. Why?—A. It would curtail credit in the first place, because our loans would have to be curtailed to that extent, and further we would have to close up many of the small branches which we now maintain throughout the country. The money in the small branch—we keep our reserve in the shape of running notes—these notes do not become money; they are so much worthless paper until paid out. If we did not have the circulation privileges, we would have to draw Dominion notes; we would have to pay real money and we would have to carry the small branches on real money instead of notes, and to that extent the small branches would become unprofitable.

*By Mr. W. F. Maclean:*

Q. It is one of your assets?—A. Certainly, nobody questions that.

*By Mr. Woodsworth:*

Q. Coming to the question of an inspector, do you think that the audit of the accounts of the head office would be a sufficient safeguard to the public?—A. I believe this, that any competent and experienced man can go into the head office of any bank in Canada, and within a very short time, if he has access to the figures, to the returns, and to the correspondence and auditors of the bank, and also if qualified and is able to question the different officers of the bank, I



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believe that within a very short time that officer can determine absolutely whether that bank is solvent or not.

Q. Would it require a permanent official attached to each head office?—A. No.

Q. Is it possible for an occasional inspector or auditor to be able to appraise properly the assets of a bank?—A. Yes, in my opinion it is; such assets of the bank as it is necessary to appraise in order to determine the solvency of the bank. For instance, if an inspector is appraising the assets of a bank he does not have to take into consideration small or trifling loans; a bank does not fail through small loans; they fail through big accounts. The Home Bank is an illustration of that. Any man going into the Home Bank would have discovered in two hours that the Home Bank was not solvent. If you had had an officer such as you propose to appoint, an inspector, he could have discovered in one hour that the Home Bank was not solvent.

Q. In view of the fact that we have a branch system in Canada, there would be no difficulty in inspection by reason of the fact that a simultaneous inspection might not be made?—A. In my opinion, none whatever, and I will tell you the reason. We all judge these things from our own experience. We have bought four different banks and the knowledge comes to one. I made an inspection myself—I do not want to appear egotistical—but within two weeks in each case, I had determined what the assets of that bank were worth, and in no case was there any serious mistake made. Further, I contend that any man of experience—he does not have to be a heaven born banker—any man of experience can go into any bank and find in a very short time, if he has access to the proper documents, he can determine whether that bank is solvent or not.

Q. Did you read the amendment which I introduced last year, looking to the appointment of a Government auditor?—A. I am sure that I did, but it has escaped me; if you would refresh my memory—

Q. You do not remember whether the Bankers' Association took any definite attitude with regard to the amendment last year?—A. I think that the Bankers' Association as a whole, last year, were not eager to have Government inspection; but on the other hand, the Bankers' Association, I think if they feel that the public demand Government inspection, the majority of bankers would be very glad to fall in with the wishes of the public and of this Committee. I know that some of the bankers are opposed to it.

Q. With regard to the Bankers' Association, what information is given to the Association of the standing of the various banks in the Association?—A. None whatever.

Q. What disciplinary powers may the Association exercise over any member bank?—A. I do not think then can exercise any unless requested to do so by the Finance Minister; not so far as I know.

Q. In the event of it coming to their knowledge that any bank is in a rather precarious position, the Association has absolutely no authority to act?—A. Not so far as I know. They can put in a curator under the Bank Act.

Q. But before it comes to that point?—A. No.

Q. In regard to the rates of interest, has the Bankers' Association any understanding with regard to the rate that will be paid to depositors, on savings deposits?—A. Yes.

Q. That is understood among the Bankers Association?—A. On savings deposits, yes.

Q. What about the rates to be charged to borrowers?—A. I think that in one or two instances there have been rates agreed on for certain classes of business, but on the whole there is no agreement.

Mr. HANSON: Municipalities.

[Mr. C. E. Neill.]

WITNESS: Yes, municipalities. There is a certain class of business on which we agree on fair rates, but on the whole there is no agreement of any great importance.

Q. I think I gathered from the evidence given last year, that the banks had on one or two important occasions decided on the restrictions of loans, bringing about a certain measure of deflation? Am I correct?—A. The banks in Canada, so far as I know, have never agreed as a body to restrict loans. The restriction of loans comes through the head office to each bank. For instance, if the directors of a bank, on the advice of the general manager and executive officers decide that it is a good time to curtail loans, they do it themselves without any reference to any other bank or without consulting them.

Q. There has not been any concerted action?—A. Absolutely none.

Q. If a particular bank or two or three of the leading banks believe from a study of the general conditions that loans ought to be curtailed, that would have a very marked effect throughout the entire country.—A. It would make it a little difficult for the borrowers, but I do not think that the banks ever pressed borrowers unduly.

Q. It would further have a direct relationship to the price of commodities at large, would it not?—A. I would not think so.

Q. You have not given thought to that?—A. I have given a lot of thought to it, but I do not think there would be.

Q. Do you not think that there is a direct relationship between inflation and deflation and the price level?—A. Oh yes, but so far as Canada is concerned I do not think we have been face to face with such a situation as that.

Q. What has brought about the general ups and downs in general prices? A. You probably know that as well as I do.

Q. It does not come by accident?—A. I suppose that the inflation of currency must increase the price of commodities; that is a generally accepted principle that applies, not only in Canada, but all over the world.

Q. That is quite true; all I am suggesting is that there is a general economic law that the banks can by causing a deflation or inflation affect the price level?—A. If they take any drastic measures, it is possible; but so far as I know, the banks have nothing to do, or the restricting of loans has nothing to do with the inflation or deflation.

*By Mr. Shaw:*

Q. Has it had nothing to do with the price level in the United States?—A. I think probably it had, but I do not know whether it had or not. As you know, the Federal Reserve Banks deflated very rapidly and were very seriously criticised for deflating rapidly and causing much hardship.

Q. Has it an effect on business here?—A. I think so; every business movement in the United States is reflected here to a certain extent.

*By Mr. Woodsworth:*

Q. Bank notes are generally guaranteed under the existing arrangement?—A. Yes.

Q. Then why should deposits not also be guaranteed?—A. Well, bank notes are a medium of circulation, and it would not be wise to have any doubt in any one's mind as to their safety. The question of guaranteeing bank notes or having them absolutely safe is quite different from the question of guaranteeing deposits.

*By Mr. Coote:*

Q. Could a bank carry on business without deposits?—A. No, it would have nothing to loan except its capital.

Q. Could it do without its own notes?—A. Certainly.



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*By Mr. Woodsworth:*

Q. The custody and management of the central gold reserve are to-day in the hands of the Bankers' Association?—A. Under trustees appointed by the Government; the Royal Trust Company, the Bank of Montreal, the Canadian Bank of Commerce, and the Royal Bank of Canada.

Q. That practically gives control over the gold reserve?—A. Yes. The trustees are appointed by the Government.

Q. The trustees have full control?—A. I do not know what you mean by full control?

Q. As trustees?—A. They control the money that is in there.

Q. There is no particular reason why the Treasury Department itself should not control this reserve?—A. I do not think so, it is a matter of convenience to have it under a real trust; it is a matter of convenience.

Q. We have there the nucleus of a central reserve bank, have we not?—A. I would not admit that.

Q. The question has been raised that if the Government should really carry out a systematic audit, it would mean that the Government practically guarantees the banks, would that be a fact?—A. I do not think so. I have no feeling of that kind at all. I do not see why the Government should be responsible if they examine a bank any more than the Government of the United States is responsible for Government examinations there.

Q. With regard to this question of publicity: If it is desirable in the interests of the shareholders and the public generally that a certain measure of secrecy should be maintained; that certain information should be confidential in its character, it throws a great responsibility upon the directors. Is there any way of holding the directors responsible?—A. You mean responsible for losses to depositors?

Q. Yes, for losses to depositors?—A. If you did that you would not get any bank directors.

Q. I am looking at the thing practically. We are facing it under the reference to this Committee. There were certain losses to depositors and shareholders of the Home Bank. Now, one of the reasons why these losses, I take it, occurred, is that this information was confidential and private through the years, and the shareholders and depositors had no way of obtaining the information?—A. If the directors of any bank are criminally responsible, or make false statements, or wilfully give wrong information to the government, I see no reason why they should not be held responsible.

Q. Not merely the false statements, but the very fact that they hold confidential some of the essential facts in the case, placing a responsibility upon them?—A. Because they did not disclose their secret reserves?

Q. Yes?—A. That is no great responsibility.

Q. If they withheld any material facts?—A. As far as I know there were no material facts—

Q. In the case of the Home Bank there were these tremendous investments, which were no good?—A. If the directors of the Home Bank realized these assets were worthless and put that in their statement knowingly, saying they were of value, then they must be responsible.

Q. I will go one step farther than that. If the shareholders and the public are denied the knowledge of essential facts, is there not responsibility upon the directors, even though the directors may believe that they are making a correct statement?—A. I think a director of a bank is acting in good faith and fulfilling his obligations to the best of his ability, if he is deceived, I think it would be a very hard thing to make that man responsible—if he has carried out his obligations properly.

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Q. And the shareholders and depositors in such cases must carry the burden without any recourse?—A. Always provided that the director does his duty; if he does not, he must suffer.

*By Mr. Cahill:*

Q. Mr. Neill, on that point of secret reserves. Who administers secret reserves? Are the directors all aware of the secret reserves?—A. Yes.

Q. And the shareholders' inspector or the shareholders' auditor has access to the secret reserves?—A. He knows what they are, yes; he must know.

Q. Does he investigate them?—A. Perhaps. If you will permit me, I will say that a contingent fund is a fund set up in a bank that is available to take care of bad debts in case of need; it is just a heading opened up in the general ledger.

*By Mr. Hanson:*

Q. What form does it take?—A. It takes no form; it might be \$20,000,000 or \$50,000,000—of course, I am speaking in absurd amounts—but it is an amount that is kept in the books, and that is available, and it is invested in the general assets of the bank.

*By Mr. Maclean:*

Q. And any claim written off goes in there?—A. Yes.

*By Mr. Cahill:*

Q. And it is subject to the investigation of the shareholders' auditors?—A. Yes.

Q. And would be under government inspection?—A. Yes.

*By Mr. Irvine:*

Q. Just a few questions arising out of the examination by Mr. Woodsworth and Mr. Good, which I did not get quite clearly. I understand, Mr. Neill, that you disclaim any power on the part of the Bankers' Association to control credit in respect to inflation and deflation?—A. That is so.

Q. Would you say that it is better that it should not be controlled—that we have an uncontrolled credit system?—A. I would say so.

Q. Just left any way it wants to be?—A. The bankers, as bankers, must exercise their intelligence.

Q. And of course, how can they exercise intelligence if they do not control it?—A. Each bank controls its own loans.

Q. No, each bank controls its credit?—A. Yes.

Q. You were saying they did not control it as regards the credit of the nation?—A. As an association?

Q. Don't you think that somebody ought to do that?—A. To control the credit loans of the banks?

Q. Control the whole credit of the nation—in respect to the nation's business?—A. I do not think it is necessary.

Q. You think it would not be wise?—A. I think it would not be wise.

Q. I think you also said that if the government issued all the currency of the country, that would result in a curtailment of credit?—A. Yes, to some extent.

Q. It was not clear to me how that would happen. Supposing I put the proposition to you; how many bank notes are in circulation in Canada at the present time?—A. I can't tell you that; it appears in the Government statements every month. Notes in circulation at the end of March \$170,850,000.

Q. Supposing that the Government should issue in addition to its own notes, \$170,000,000 and distribute them exactly as they are now distributed. In what way would that curtail credit?—A. Of that \$170,000,000, you must

[Mr. C. E. Neill.]



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understand that a portion of it is secured by deposits in the Central Gold Reserve. Let me see how much has to be subtracted from the Central Gold Reserve? \$61,000,000 is represented by deposits in the Central Gold Reserve. Therefore, that really represents Dominion Government circulation of \$110,000,000—that would be the net amount.

Q. The point is if the Government issues notes—note for note—with the bank notes which I presume have collateral behind them to be issued on.—A. Yes.

Q. If the Government issues note for note, in what way would the fact that the Government issues currency curtail credit?—A. Because the banks now have \$110,000,000 of their promises to pay outstanding, and they would have to redeem those and buy an equal amount from the Government.

Q. But if they bought an equal amount from the Government would you still have the same amount for doing business with?—A. Instead of having \$110,000,000, we would have used that up to buy the Government notes.

Q. Could not the Government issue to you \$110,000,000 of its own notes on the collateral that you use to issue your notes on?—A. Mr. Irvine, we have a circulation up to \$110,000,000; therefore, this means that we have that amount of our promises to pay, secured by the general assets of the bank. If we have to redeem those notes, we would not have them to loan.

Q. I do not quite get that point—A. It is a special privilege.

Q. But surely if the Government can extend special privileges to the banks, it can use that same special privilege for itself?—A. If you do not see my point, I do not think I could make it clearer to you.

*By Hon. Mr. Stevens:*

Q. Let the witness repeat his statement in regard to the currency being kept in the bank vaults.—A. It would come in that way.

*By Mr. Hanson:*

Q. You would have to pay the Government notes.—A. In addition to the notes we would have in actual circulation we would have to get other notes, and hold them at our branches to take care of our business.

*By Mr. Irvine:*

Q. Perhaps we can go through the situation, as regards getting this privilege. You take your bank collateral and present it to the Treasury Board?—A. On our regular circulation, no.

Q. Can you circulate—A. For advances under the Finance Act—no, we can only circulate notes up to the extent of our fully paid-up capital.

*By Mr. Maclean:*

Q. And that is a privilege?—A. That is a privilege, and in certain seasons of the year, from the 1st of September up until February, we have the further privilege of issuing to the extent of 15 per cent above our paid-up capital, but we have to pay 5 per cent interest. That is to take care of the crops.

*By Mr. Irvine:*

Q. But if Government notes were issued to you to the full extent of your paid-up capital, in what way would that curtail credit?—A. If we did not have to pay for them, it would be the same thing.

*By Mr. Coote:*

Q. But if you had to pay interest on that, Mr. Neil—A. It would depend on the rate of interest, Mr. Coote.

MR. MACLEAN: It might be 2½ per cent, or it might be anything.

THE WITNESS: They had to put up government bonds in the United States.

[Mr. C. E. Neill.]

*By Mr. Irvine:*

Q. Do you say that the disparity between the capital of the banks and the liabilities of the banks did not constitute any appreciable danger?—A. I don't think so, at the present time.

Q. Are we to infer from that answer that capital is more or less incidental to banking?—A. Not at all.

Q. If there is no ratio between the bank's capital and its liabilities, what is the use of the capital?—A. I think there is a ratio, but I think in Canada we are still on the safe side, considerably below the ratio in England.

Q. What is the safe side?—A. I do not think I am sufficiently well informed as to that. You can judge that as well as I can.

Q. Don't you think every man in Canada ought to know that?—A. We are on the safe side.

Q. I have no doubt you are on the safe side.—A. I think when we get to the danger point we will take care of that.

*By Mr. Woodsworth:*

Q. How do you know that? You see some of us are ignorant of that. How do you know that?—A. I am certain that we are well below the ratio that obtains in England, for instance.

*By Mr. Irvine:*

Q. But England is not safe?—A. How can you judge these things?

Q. That is a point I want to get at.—A. I do not know whether there is any hard and fast rule for judging these things.

Q. If you say there ought to be a ratio, I would like to know what it is?—A. I cannot tell you that.

Q. You cannot tell us?—A. No.

Q. I think you said you have not given any consideration to the proposition of Mr. Ladner's proposal regarding the insuring of deposits?—A. No, because I was never quite satisfied as to what Mr. Ladner's proposition was.

Q. You thought it would not be advisable?—A. That is my personal feeling, yes.

Q. Would you be willing to study it—we don't know whether it will work or not?—A. I will be very glad to.

Q. Would you be kind enough to call the Bankers' Association together immediately and receive Mr. Ladner's proposition, and report to this Committee upon it?—A. If Mr. Ladner will make his proposition in concise shape and in a practical way, and give it to me as the acting head of the association, I will tell the members of the association that we have got it, and this Committee has asked us to meet and give them our views.

Q. That is all I want, because there may not be anything in Mr. Ladner's proposition, but I would like to know if there is.

The CHAIRMAN: In respect to that, it might be well to ask Mr. Neill if he requires anything additional in order to put Mr. Ladner's proposition in concrete form—in addition to what is shown on the order paper.

*By Mr. Irvine:*

Q. You have heard the question of the Chairman?—A. I find it very difficult, so far as I am concerned, to establish a fund somewhat similar to the bank circulation redemption fund, to insure deposits. I find it very difficult to determine, in my own mind, how that could be done, or on what basis you would assess the banks.

Q. I think your objection, as stated, to the proposition, was that it had not worked out in the United States?—A. Guaranteeing of deposits did not, no.

[Mr. C. E. Neill.]



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Q. Do you know of the pamphlet issued this year by the Bankers' Association and distributed to the members of Parliament?—A. Yes.

Q. Did you write it?—A. No.

Q. Do you know who wrote it?

The CHAIRMAN: Is it wise to ask that question?

Mr. IRVINE: I think it is very wise.

The WITNESS: I think I know who wrote it, but I am not sure enough to say. I did not see him do it.

*By Mr. Irvine:*

Q. Would you care to say who you think wrote it?—A. I would like to ask Mr. Ross about that. (To Mr. Ross): Do you know who wrote it?

Mr. Ross: It is a composite thing.

*By Mr. Irvine:*

Q. Is it a synecopated product of all the bankers' intelligence, of Canada?—A. Yes, I think so.

Q. Are you aware that in that pamphlet it is very definitely made clear that there is no comparison between the Canadian banking system and the banking system in the United States?—A. No comparison of them?

Q. Yes. The heading in the systems are incomparable?—A. I think it is very difficult to compare them.

Q. If they are not comparable, then what happens in the United States with regard to an insurance scheme would not necessarily happen in Canada?

—A. I would not go that far. It is generally conceded that the principle of guaranteeing deposits is unsound. It does not make any difference the size of the banks. It is unsound as a financial principle.

Q. I do not think it would be wise to say it is conceded everywhere. I think it has been made clear by the witness that it might be detrimental to the safety of a bank if publicity were given to the condition of the bank at certain times?—A. I only said that with reference to contingent funds, I think.

Q. I gathered from your answer to a certain question that if a bank were in difficulties and those difficulties were made known to the public, it would likely increase its difficulties?—A. I think so.

Q. You also said that insurance would lead perhaps to reckless banking?—A. Yes.

Q. Do you not think that keeping things quiet, the fact that a banker knows that his investment will not be made public, might also lead to reckless banking?

—A. I do not think so; I do not think you can compare these two cases. The loans that banks make are not disclosed to the shareholders.

Q. But do you not think that if, say, a shareholder was about to borrow a couple of million dollars to enter into a doubtful investment, and he knew that that would be public to-morrow morning, in the front page of the newspapers, might he not consider twice before he did it?—A. He would be a very strange banker who would loan \$2,000,000 on a doubtful investment.

Q. They have been doing it; we are gathering up the fragments of a similar case, and we do not know how many more are doing it.—A. Is it your suggestion that every bank shall make public all its loans?

Q. My question was, do you not think that the fact that the condition of a bank was kept from the public would have a tendency to make reckless bankers?—A. No, because I do not see how you could make the full condition of a bank known to the public. The only way you could do that would be to publish a list of the bank's entire assets and everything it owned, and all its loans.

[Mr. C. E. Neill.]

*By Mr. Garland:*

Q. That might be a good thing?—A. I do not think it would be a good thing.

*By Mr. Maclean:*

Q. You said that you could go into a bank and in two weeks have a very good knowledge of that bank's position?—A. Yes.

Q. And that being the case, if you had had an opportunity to go into say, the Merchants Bank, which was performing a splendid service for this country, and could have made an examination, the bank might have been saved? Now then, granting that an inspection of two weeks would show the condition of a bank, and my friend Mr. Stevens here says he is in favour of bank inspection—all I want to know is, should not that bank inspection automatically take place, and not be the function of the Minister of Finance of this country?

Mr. HANSON: At his discretion?

*By Mr. Maclean:*

Q. And should it not be imperative that some high-class official of the description you have given, be employed, rather than this work being done as a political function?—A. If you have government inspection, I would say the way you suggest is the way to do it.

*By Mr. Shaw:*

Q. Are you familiar with the inspection system in the United States, Mr. Neill?—A. No.

Q. Are you familiar with the operation of the Comptroller of the Currency, in his relationship to examinations, and in his relationship to the operation of the Federal Reserve System?—A. No, not sufficiently to discuss it.

Q. Well then, let me ask you if you will agree to this; that any inspection imposed by the Government must be an independent inspection?—A. Yes—what do you mean by "independent"?

Q. I mean it must be done by independent authority, responsible to and paid for by the Government?—A. Yes.

*By the Chairman:*

Q. Independent of the bank?—A. Yes.

*By Mr. Shaw:*

Q. And our efforts must be directed to working out some scheme to give the fullest possible efficient consideration with the means we have at our disposal?—A. Yes.

Q. Have you read any of the evidence of the Home Bank case?—A. I have read parts of it.

Q. Has it struck you, Mr. Neill, as a reader of that evidence, that it is a most amazing thing that all this information was available with regard to the position of this bank, was in the hands of the directors, was apparently in the hands of the Minister of Finance—probably two or three Ministers of Finance, and rumoured, as you suggested, among the bankers—yet not a single depositor through the whole course of the seven or eight years heard one single word, and was unable to protect himself. Is that not an amazing situation?

Mr. HANSON: The Government of New Brunswick heard of it.

WITNESS: I think that some depositors, some people, had heard that the Home Bank was not particularly strong.

Q. And they got their money out?—A. Yes.

[Mr. C. E. Neill.]



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Q. Is that not a sad commentary upon the situation to-day when that condition can exist?—A. Certainly, the Home Bank is a sad commentary.

Q. On the Bank Act I would say too?—A. No, the difficulty with the Home Bank was that they did not have proper auditors.

Mr. W. F. MACLEAN: Or Government inspection.

Mr. HANSON: They did not have any internal inspection.

*By Mr. Shaw:*

Q. Are you satisfied with this system of rotation of auditors?—A. I think it works very well.

Q. Do you think it necessarily makes for safety, to change an experienced auditor for another one not experienced?—A. It is a step in the right direction. I would not say it is infallible, but it is certainly a step in the right direction.

Q. I do not understand why you say it is a step in the right direction when you must remove an auditor who has experience in the operation of the law and substitute some one else who is not experienced.—A. It is because two heads are better than one and three heads are better than two.

Q. You put on the one hand experience in the bank's affairs as against a possibility of dishonesty? Is that not what it is—or collusion?—A. Or bad judgment.

Q. But the bad judgment may exist any way?—A. But you are less likely to have bad judgment if you have three minds working rather than one.

Q. Are you in favour—probably I had better predicate my question by asking this: What can the Minister of Finance do in the event of his finding that a bank was in a very bad condition, after the investigation under Section 56 (a)?—A. He can either close the bank or go to the Canadian Bankers' Association and seek their advice as to what should be done.

Q. How would he close the bank?—A. Have a curator appointed under the Bank Act; he can get the directors to appoint a curator.

Q. But suppose he had a lot of refractory directors to deal with and they said, "No, we will not close the bank," is it not so that there is only one test, that a bank closes its doors when it fails to meet its obligations that have matured, just the same as in any other solvent institution?—A. I think so.

Q. In these circumstances, the Minister of Finance has no power under the Bank Act to close a bank; is that not so?

Mr. ROSS: He can bring pressure upon the directors and say to them, "We will prosecute you; we will take out an information against you." He can soon make them close their bank.

WITNESS: Do you not think that if the Minister wanted to close a bank, he could close it?

Q. Are you in favour of giving him the power?—A. Yes.

Mr. SHAW: I am. I wish the Minister of Finance were here to get this too.

*By Mr. Shaw:*

Q. The next thing I want to ask you is, in the United States the comptroller of the Treasury, when he finds that the capital of a bank has been impaired, can call immediately upon the shareholders to renew the bank capital, and that is credited against their double liability. Would you be in favour of such power as that being given to the Minister of Finance, or to his proper officer?—A. I do not know; I have not considered that point. I do not think that it is perhaps very likely.

[Mr. C. E. Neill.]

Q. We have a Finance Act under which, as you have suggested, there is the power to discount securities of a certain character and to fix the rate of interest?

—A. I think the rate of interest is variable.

Q. The maximum is fixed, I think?—A. No.

Q. Or probably it is the minimum?—A. I do not think that any rate is fixed.

Q. But as a matter of practice, it has always been at the rate of 5 per cent? It has never varied?—A. Not recently.

Q. Has it varied at all?—A. It varied during the War on a certain class of securities.

Q. But during the period from the end of the War to the present it has not varied at all?—A. No.

Q. Now that, of course, is administered by the Treasury Board—that Finance Act?—A. Yes.

Q. And the Treasury Board, as you know, consists of the Minister of Finance, the Deputy Minister of Finance as secretary, and I think four or five other Ministers of the Crown?—A. Yes.

Q. That is what I would call a political body, is it not?—A. Yes.

Q. Would you say that all of those gentlemen are experienced bankers?—A. Not likely to be.

Q. And under our system it is not likely they ever will be?—A. I should not think they would be experienced bankers, no.

Q. I want to get clearly in my mind what happens. We will suppose you, representing the Royal Bank, go to the Treasury Board and say, "Here are my securities; I want a certain amount of money at 5 per cent," and they say, "Very well, Mr. Neill, we will let you have it"; they issue to you Dominion notes, do they not?—A. Yes.

Q. What do you do with those Dominion notes?—A. We use them to make loans with.

Q. But you do not want to circulate Dominion notes?—A. We put them in our Gold Reserve, and use our own notes.

Q. That is one method of increasing your own circulation?—A. That is one method of increasing our own circulation, but the increase is backed by Dominion notes.

Q. Quite right. The situation is that the Dominion notes are in the Central Gold Reserve?—A. Yes.

Q. And as security against them you issue your bank notes which go out, and quite properly bring in a rate of interest?—A. Yes, say 6 per cent, and we pay the Government 5 per cent.

Q. So it pays you, under the circumstances, to issue your own notes? If it did not pay, you would not use them?—A. Unless we needed the money.

Q. What I want to get at is this. This reserve is under the control of four trustees, is it not?—A. Yes.

Q. And then the Finance Act is under this Treasury Board. We also have in addition to that the returns made by the Bank to the Minister of Finance monthly or yearly. You know about that, of course?—A. Yes.

Q. And those go to officials of the Department, not skilled officials at all. I mean it is merely an adding machine requirement of the Minister of Finance as far as we know?—A. I would not say they were unskilled officials.

Q. They are not experienced bankers, anyway?—A. No, they are not experienced bankers.

Q. And what they do is to tabulate, just the same as an adding machine, and send this information to the public in the *Canada Gazette*, etc.?—A. Yes.



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Q. And as a matter of fact, as far as these statements being sent to the Minister of Finance, these finance officials have never discovered their falsity, that is true?—A. Yes.

Q. We are going to set up another Department, and we will have an inspector, according to the Minister of Finance, appointed by the Finance Department, that is, the Minister of Finance, and I call your attention, Mr. Neill, to this, and ask your consideration of it. We have here the Finance Act operating under one Board; the Central Gold Reserve under another, we have inspection under another, and the Finance Department receiving returns from the banks, which they gather together and issue to the public, and we have, as suggested by Mr. Maclean, a Mint under the authority of the English Government. Does that look to you like a centralized system of banking?—A. It is very workable.

Q. This machinery works, but it does not always work intelligently?—A. That machinery will work to advantage, in my opinion.

Q. I will suggest, if we had some sort of a central bank bureau, I do not care what you call it, composed of three experienced financial experts who had control of the whole system, including a system so they could relate inspection to the operation, now going on under the Finance Act, and under the Central Gold Reserve, you would probably have a very much more efficient and safe system. What would you say about that?—A. It is conceivable you would, but in my opinion, Mr. Shaw, you can have a thorough and proper inspection of the bank by having a competent official as inspector go into the different banks each year, as I have suggested.

Q. But do you think, Mr. Neill, that system of inspection should be related to the system of discounting?—A. It would be to a certain extent in this way, if the Minister is called upon, and is undecided as to the goodness of the securities, or the soundness of the bank, the natural thing to do will be to call in these inspectors for advice.

Q. As you say, the Minister of Finance under our system is not necessarily a financial expert; we are not going to rely on his judgment; we want to get a competent financial man?—A. The Minister should have no trouble at all. The collateral provided under the Finance Act is set forth. There can be no difficulty in the case of Government or municipal bonds or securities of that kind. The only question that could probably arise would be in regard to commercial paper. If the Minister is undecided as to the value of that commercial paper, he can call on the trustees of the Central Gold Reserve for an expression of opinion, and he could not get any more qualified people to pass on the value of collateral than the trustees because these four trustees, or three of them are the heads of three of the largest banks in Canada.

Q. But they might be interested in this particular transaction?—A. I can hardly conceive that any general manager of any bank would be interested or that he would ask the Minister to make improper advances.

Q. He might be the very man who was asking for the advances?—A. Then his opinion would not be asked. If the Royal Bank were asking for advances in trade paper and the Minister was not satisfied to make those advances, he would call in the three other trustees of the Gold Reserve, Mr. H. B. Mackenzie, General Manager of the Royal Trust Company; the general manager of the Bank of Montreal, and the general manager of the Bank of Commerce, and he would ask these three officials to value the collateral and he could have the views of the inspector. He would be perfectly safe in doing that.

Q. I take it that you are thoroughly satisfied with the system as it exists with the exception of an added inspection?—A. Under the Finance Act?

Q. Yes. You do not ask for any further co-ordination than now exists?—A. No.

Q. Do you know a gentleman of the name of Mr. Pease?—A. Yes.

Q. He has studied the Federal Reserve System very thoroughly?—A. Yes.

Q. In his statement to the shareholders in 1918 he pointed out that the time was practically ripe for the adoption of the same methods employed under the American Federal Reserve System to the Canadian system?—A. Mr. Pease had very strong views on that, but I do not think that at that time it was proposed that the Finance Act should be extended. The Finance Act was a war measure and was automatically to come to an end after the declaration of peace. Then the Minister, after considering the matter carefully, decided to make the Finance Act permanent in order to provide rediscount facilities for the banks. Probably when Mr. Pease made that statement—I do not know what his views are to-day—he had no idea that the Finance Act was going to be continued. Rediscounting privileges are in my opinion rather essential.

Q. Have you ever considered the advisability of extending the scope of the Finance Act so that a provincial government might come here for instance, and pledge its security for the purpose of using the money secured for rural credit purposes?—A. The provincial government would have to apply to a bank first for a loan and put up its bonds as security, and the bank would have to apply to the Government.

Q. No, let us change the Act so that the provincial government could come direct to the Treasury Board the same as you do. Why should they have to go to a bank?—A. That is a point I have never considered, and I would not like to give an opinion.

Q. Well, you see, I hoped when you came before the Committee that you would consider all the problems, so that you could enlighten us.

Mr. HEALY: I was going to ask a few questions in regard to the Home Bank situation, if the Committee can wait a few minutes.

Q. You have not studied the evidence that has been given before the Commissioner, Mr. Neill?—A. No.

Q. But you know the situation pretty thoroughly?—A. Yes.

Q. And the cause of the failure?—A. Yes.

Q. In 1916 it was stated that had the bank closed, the depositors would have been saved in the neighborhood of \$79,000,000. Do you think that is reasonably correct?—A. I do not know the condition of the bank in 1916, compared with what it was when it failed, but it is conceivable that the bank did get in a worse position in the space of time between 1916 and 1924.

Q. Would you say it should have been closed in 1916, in your opinion?—A. Well, that depends a great deal on the situation at that time. You know what the reason was—that the Finance Minister gave—why he did not close it—

Q. Just a minute; what was that reason?—A. As I understand it, it was a matter of expediency.

Q. It was so that a financial crisis might be saved?—A. It might have arisen if the bank had been closed at that time.

Q. Is that your opinion now?—A. I have no opinion whether it would or not.

Q. I am asking you now, as the leading expert of Canada?—A. I regret I cannot accept that honour.

Q. You knew the circumstances in 1916?—A. It is quite conceivable that a crisis would have arisen.

Q. And had a crisis arisen, who would have been the first sufferers financially? Is there not only one answer to that—the chartered banks?—A. Some of them might have been.

Q. All of them, if the crisis had been severe enough?—A. No, I don't think so. Some of them might have been, but not all of them.

[Mr. C. E. Neill.]



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Q. I do not wish to get into an argument about the withdrawals of deposits, but if a crisis had been large enough, they would all have been crippled?—A. I cannot conceive of any crisis sufficiently bad to cause that situation.

Q. Is that not what the Minister of Finance had in mind?—A. He thought an unfortunate situation might arise. I do not know how far he thought it might extend.

Q. When was the first appeal made to the Bankers' Association to come to the help of the Home Bank?—A. I cannot say, because the first I knew of it was when I was telephoned, and I think then the bank had practically failed.

Q. That was the appeal made just before it was closed?—A. All I know was that I was telephoned to that the Home Bank was *in extremis* and nothing could be done to prevent it failing. I think they had closed the doors then.

Q. Did bankers generally know the condition of the Home Bank a year or two previously?—A. Not definitely; they may have suspected it was not in good shape, but I do not think any of them thought it was in as bad a shape as it was.

Q. Has any method been considered by the Bankers' Association of reimbursing the depositors of the Home Bank or helping to reimburse them?—A. Certain people have been going to the Bankers' Association and asking them if they would not agree to repay depositors, but we said we could not see our way clear to do that, because we did not think we would be justified in doing that from the standpoint of our shareholders.

Q. And do you think, in view of the opinion of the Finance Minister, and the opinion you have partially agreed to, that if the bank had closed in 1916, many of the depositors would not have suffered as they have, that somebody should reimburse these depositors?—A. I would not care to answer that question.

Q. You are an expert here before this Committee, and I want your opinion on that?—A. As far as our banks are concerned, I am only interested in the banks—I do not think the banks should be expected to reimburse them?

Q. Or help to?—A. Or help to, speaking for the banks.

Q. They were sacrificed for the benefit of some—We want your expert opinion on that, Mr. Neill?—A. My view of the Home Bank situation would be of no value to you.

Q. Yes, because many of us are trying to insist that these people should be reimbursed.—A. The only expert opinion I could give you is that the banks cannot be expected to reimburse. There is no reason why they should be.

Q. There is a difference of opinion on that?—A. There may be a difference of opinion, but you asked me for my opinion. Speaking for my own bank, we do not feel that we benefited any by the action of the Finance Minister in withholding action.

Q. I was going to ask one general question. Why is not the Canadian dollar on a gold basis to-day?—A. Ask the Finance Minister.

Q. Is it up to the Finance Minister?—A. Up to the Parliament of Canada.

Q. Are you of the opinion it is on a gold basis?—A. Yes.

Q. Or it could be?—A. Yes, it could.

*By Mr. Hanson:*

Q. And should be?—A. And should be. It is up to the Parliament of Canada. They can put it on a gold basis.

*By Mr. Spencer:*

Q. How can that be done?—A. There is a prohibition on the export of gold. Remove that prohibition and let the Government pay gold on demand for its legal tender.

*By Mr. Shaw:*

Q. Have you read Mr. Keynes' book?—A. No.

The witness retired.

The Committee adjourned.

AFTERNOON SESSION

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., Mr. Vien, the Chairman, presiding.

Doctor H. M. TORY recalled.

*By the Chairman:*

Q. Doctor Tory, are you ready to make any further statement to the committee in respect of the rural credits?—A. Mr. Chairman, may I answer a question that has been suggested to me, that I look at page 787 of last year's report, and give you an opinion on that. My opinion does not differ materially from what Professor Swanson says. Without question, there are a good many people in difficulties who would have trouble in presenting a proper security for loans. On the other hand there are a great many people who would have no trouble in presenting security, whose lands, properties, are in an advanced state of development, and who would be able to present substantial security. I am quite sure of that. I might illustrate that by saying that I inquired of one of the large loan company inspectors in Edmonton, and he told me that they had in a certain district with Edmonton as the centre loans out to the extent of approximately two million dollars, and there was only one questionable loan in the lot. That would be a district that would probably be specially advanced. They were having no anxiety about their loans in that district at all. He said if we were to go outside of that area, further north, where the land is less cultivated, or where the land is not quite so good, we would find a great many people in difficulty. I was not able to get any figures that would give me any indication of the ratios of the numbers of persons who were in very great difficulty. I had hoped to make a survey of certain districts but it was impossible to do so. I think perhaps that is sufficient on that point.

Q. In a word, the system would be created for the relief of those who can offer security, and the relief would be mainly that an amortization plan would be introduced which, by the fact that the rate of interest would be lower, would allow them by what they would save, to amortize the amount?—A. That is the scheme that has been put into operation almost everywhere. That is the idea we have. Then there is another question.

Q. There will be, however, a certain number, which cannot be ascertained, who will be unable to profit by the system on account of the lack of security?—A. They will be unable to give the kind of security this scheme demands. They will have to be treated in some other way. I see on looking through my evidence yesterday that I made one slip; I said that the rate of interest for the intermediate banks was the same as for the land banks. That is not quite correct. The rate at which bonds are sold by the land banks is a maximum of 5 per cent, so the interest rate there is at a maximum of 6 per cent. In the intermediate banks they are allowed to sell bonds at a maximum of 6 per cent, which with 1 per cent, would make a maximum of interest for the intermediate banks at 7 per cent. Someone asked me if the rates were the same, and I said, "Yes," without thinking of the difference between the two.

Now, Mr. Chairman, the question that was asked—and I judge by the fact that no one has started asking questions about it, that you are expecting me to answer the question of what I would recommend in the way of immediate relief—I recognize that that is asking a very definite and serious question, and



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I confess that I had not thought originally that such a pointed question would be put to me. I have thought over it very seriously since last day, looking over all the aspects of it as I have observed them in Canada and the United States, and I have come to these conclusions. I am going to make a few brief statements of the conclusions before I suggest the emergency remedy.

*By Mr. MacLean:*

Q. By emergency, you mean something to be done this year?—A. Yes, that is the word we used last day, to carry on during the time of further study and discussion of the subject. I have come to these conclusions, first, that the Farm Loan Board principle is sound, absolutely sound.

*By Mr. Spencer:*

Q. What do you mean by the Farm Loan Board?—A. I am speaking now in the terms of United States practice, that the Farm Loan Board principle as worked out in America—

*By Mr. MacLean:*

Q. And backed by the Government?—A. I will come to that in a moment—is sound in principle and could be operated in Canada. I am convinced of that. Secondly, that it would require government help by capitalizing it, and I believe that that is also sound. I think American experience shows that the government can safely, without fear of loss, undertake the capitalization of a farm loan scheme. I have serious doubts of the soundness of direct government loans as applied to Canada.

*By Mr. MacLean:*

Q. Applied to a Farm Loan Board System?—A. No, in a government doing business by direct government loans. I have very serious doubts about that, and my reasons are, the danger of the lack of initiative on the part of the persons who borrow directly from governments; the danger of political interference in the administration of it, of which there is a genuine danger, and the fear of a lack of a sense of responsibility that many people have in borrowing directly from the government. I am giving to you candidly the results of my thinking, since last day. I do not say that it is not sound, but I say that certainly I have very serious doubts about the soundness of any federal scheme involving direct government loans. Then I go further and say that the establishment—if I am correct in that, then the establishment—if I am correct in my original statement, we should aim at the establishment of a national Farm Loan Board for the purpose of supervising and controlling a bank or banks which would absorb or act through the present local government organizations.

*By Mr. Garland:*

Q. The local co-operative organizations?—A. I am speaking now of the local government organizations.

*By Mr. Good:*

Q. Provincial?—A. The provincial government organizations, that any scheme we put into operation should absorb the present organizations that exist in the several provinces.

*By Hon. Mr. Stevens:*

Q. Not duplicating their work?—A. Not duplicating their work.

[Dr. H. M. Tory.]

*By Mr. Garland:*

Q. Do you include the banks?—A. No, I am speaking now of the government organizations.

*By Mr. MacLean:*

Q. Is there any danger of political interference in these provincial organizations now?—A. I would prefer not to answer that question, Mr. MacLean. The history of these organizations, some of it is not a very happy history, as I think those of us from the west who know about it will agree. I was stating that the organization could absorb these local government organizations so that we will have it in one central organization comprehensive of Canada. These banks ought to be capitalized by the governments—Dominion and local, and private moneys if it could be so done. In the United States of America they tried to obtain private money to go along with the government money, and they failed to do it as far as the capitalizing of the banks was concerned. They got it in abundance as far as the sale of bonds was concerned. They should be financed by the sale of bonds; they should be autonomous but centrally controlled; they should be regulated as to rates of interest; there should be fixed dividends on capital; there should be co-operation in the method of making loans—I am going now back to the local associations—there should be co-operation in the method of making loans, with purchase of capital stock and such an additional liability on individuals as is necessary to make borrowers have a sense of responsibility. Further, the loans should be only for productive purposes, and where necessary extended under guarantees, and finally, it should contain an amortization plan.

*By Mr. Spencer:*

Q. May I ask a question, Dr. Tory? You say the loans should be only made for productive purposes?—A. Yes. Perhaps I had better say instead of "productive," "agricultural" purposes.

*By Mr. Garland:*

Q. For the relief of past due indebtedness?—A. Yes, and an amortization scheme. Now, I have tried to put in the fewest words—

*By Mr. McKay:*

Q. Is that long term or short term loans?—A. I am speaking now of long term loans only.

*By Mr. MacLean:*

Q. How long would it take to put that in operation so it would help the distressed people?—A. The difficulty in the way, as I said at the last meeting, is the difficulty of co-ordinating the present efforts into a common system, and I would suggest this. You asked me definitely to state what I would do in the emergency. If we were free to do what we thought was wise in the emergency, and I was advising what to do, I would advise that legislation be passed in this Parliament for the purpose of allowing the Dominion government to make loans in the interim to local governments to be used through their own machinery, on the guarantee of the local government, and that we be given time to work out a general plan that would be comprehensive of the whole.

*By Mr. MacLean:*

Q. The main thing is to get the authorization of this Session?—A. I have thought of it a good deal, and I see no other way of obtaining the time to

[Dr. H. M. Tory.]



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work out a scheme, and at the same time relieve the pressing needs of the people except by the government taking action.

*By Mr. Good:*

Q. The suggestion was made at the last sitting at which you attended that that assistance should take the form of advances under the Finance Act as it is now, to the banks. Have you considered that?—A. Yes. That raises the question that Mr. Shaw asked me about, to consider the central reserve bank.

Q. Not necessarily, I think.—A. It is involved in that to a certain extent, the same idea is in it as far as the long term loans are concerned. I think there is very serious and grave difficulty in the way of operating either the Finance Act or a Central Bank for the purpose of long time loans, but for the purpose of short term loans I do not see any difficulty in the way.

Q. You quite misunderstand me. I had reference only to the emergency legislation, not to any permanent scheme.—A. My judgment would be that the Dominion government, if it should pass such legislation, should do it in the way best calculated to do it easiest.

Q. Have you thought of the manner in which it might extend help? Here is what I mean. Supposing the government goes and borrows from the banks at 6 per cent, and loans it out to the provincial governments at 7 per cent, or something like that, or say at the same percentage. That will start at a pretty high percentage, and it is questionable whether the provincial governments, unless operating at a loss, can be of very much service?—A. I would take it for granted that the Dominion government, if it did such a thing, would use its machinery for getting money at the cheapest price possible.

Q. You know last year, I think, or two years ago, one hundred million dollars was borrowed in New York on the guarantee of the Dominion government, and I was wondering if you had given any consideration to that point.—A. No, I had just thought that if that is to be done the Dominion government would take its authority and make the loans to the local governments. I had not thought of the way they would get the money.

*By Mr. Miller:*

Q. You have referred to the difficulty of getting relief to those who have not sufficient security. Take the case of one who, because of his property going down in value—say he owes \$6,000 and this new organization would consider it security for not more than \$5,000. Would that be available, and how would it be available to give him relief to any degree, or could it give him any relief?—A. Do you mean if his debt was \$6,000 and his property was only valued at \$5,000?

Q. No, the organization considers that it is only security for \$5,000.—A. I would say that wise men would consider a man's personal quality. I know in the United States the personal quality of the man is often a very very large item in determining just what the value was. If a man was known to be good, that was taken into consideration.

*By Mr. McKay:*

Q. Character loans?—A. Yes. For example, they told me of a case where they were making a loan and found that the man had a still on his farm, and they immediately refused the loan. They would not trust a man whose character was of that sort, who was violating the law.

Mr. COOTE: He would probably make more money out of the still than he could out of the farm.

The WITNESS: My judgment about the situation as it stands at the present time is that the institution of such a scheme will help those who are

worthy of help to overcome the difficulties which have come about from causes that they themselves, and in fact no one, could control. The system would be exercised with great consideration and leniency, with care exercised not to go too far beyond the rigid rules of finance.

*By Mr. Good:*

Q. You would not make it absolutely fixed that no loan should be about 50 per cent of the value?—A. When I spoke of that clause, I omitted another. I should have said “And 20 per cent of insurable improvements.” I think that is the expression used. It is more than 50 per cent of the land; the value of the house and barns and such things is taken into consideration.

*By Mr. Miller:*

Q. That covers only a part of the point I was getting at. If a man paying say 8 per cent on \$6,000 could be relieved of part of that percentage, so he could get \$5,000 at say 6 per cent or  $6\frac{1}{2}$  per cent, it would be a great relief?—A. Yes.

Q. On even \$4,000?—A. Yes.

Q. Can that be worked out?—A. You mean taking a second mortgage?

Q. It would seem to mean a second mortgage?—A. They have companies in Europe, in Germany that do a second mortgage business only; that is to say, they do no first mortgage business. They are organized for the express purpose of helping just such cases as you refer to. They charge about one per cent extra interest—I am charging my memory as to that. That is also true of Denmark. They have what is called second mortgage companies. I think a case of that sort would have to be considered on its merits. It is difficult to give a general answer to that question. May I add one general remark in which I think the Committee will be interested. I found that beginning about 1912 a system of insurance for the balances of amortized loans had been worked out in Germany, and I took the trouble to take illustrations like the illustration I used in the report, to find out what it would cost, for example, to insure the balance of a loan through the period of amortization, and I found that it is not a very large sum, the idea behind it being to relieve the company in case of death and to relieve the family in case of death. If a man dies, his debt is paid as the result of a small extra rate for interest during his lifetime. I have got fairly reliable figures from Europe as to that. It is working out on a very large scale in Europe. I would suggest that in planning to meet some special cases the question of insurance, without too great an expenditure of money on the part of the person might help out.

Mr. W. F. MACLEAN: We ought to stick to the main proposition and not get into too many details. Let us try to get something that we can take to Parliament this session.

The WITNESS: I have thought it over very carefully. I do not see any direct way of meeting the momentary emergency. If the local governments cannot get money enough to do it, help from the Dominion Government would seem to be the quick way of doing what is desired. How much money would they call for in those circumstances, I have not the slightest idea at the moment.

*By Mr. W. F. Maclean:*

Q. If you had to frame up something, could you not get the provincial governments to go with this Committee and present the scheme to the Dominion Government?—A. If my thought were carried out, I do not think that would be necessary at the moment. All that would be necessary would be to get authority to do it, and then leave it to the Government to work it out itself. You might put a maximum on the total amount. I know it is a risky thing to do, and it is



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a question whether you will get the Government to consider it. But that would be the proper method to approach it.

*By Mr. Spencer:*

Q. Did not the Alberta legislature pass legislation last session to enable it to co-operate with the Federal Government?—A. I think the idea is to have co-operation, and I know that the Manitoba Government would do it. I do not know about the Saskatchewan Government. They have their own plan working fairly smoothly.

*By the Hon. Mr. Stevens:*

Q. I would like to ask a few questions along the line of your investigation, which is undoubtedly a most illuminating one. First, security for loaning purposes is looked upon as much more suitable in settled districts than in new districts?—A. Unquestionably.

Q. Undoubtedly it is a principle that must be recognized that rates are naturally higher where conditions are unsettled than where they are stable?—A. If you are speaking of mortgage companies, yes.

Q. I mean in the main, general rates of interest.—A. You are not speaking for the moment of these organizations?

Q. No. Would I be correct in putting it this way: Your investigation in the United States, particularly—I think we can perhaps confine ourselves largely to that—in your investigation there you found three classes of borrowers, of those needing credit; first, the man who has a sound and fixed real estate credit which might be called good mortgage security?—A. Yes.

Q. Then you have another class with perhaps some embarrassing debts for machinery or stock and so on, which would be covered in the intermediate loan class, whose security might not be quite so good. Then there is a third class in the United States, for instance, in that northwestern State that you refer to, where neither the real estate nor the stock and equipment security is sufficient to meet their enlarged needs?—A. Ys.

Q. That is the problem?—A. The two together, I think form the problem.

Q. But the latter one particularly?—A. Yes, the latter one particularly.

Q. That is a fair division or classification in the United States?—A. Yes.

Q. Did you find that the Farm Loan Board with its various subdivisions, to which I shall refer in a moment, fairly meet these two?—A. I would say that they have not refused loans where the first two conditions were reasonably fulfilled. I think that can be said.

Q. The first?—A. Without question.

Q. And the second fairly well, but the third is not really met at all under this?—A. No.

Q. Now we will come to our own country, to the Canadian Northwest particularly, and some districts in British Columbia, but the three Prairie Provinces, particularly. Is the presence of a substantial number of the third class, irrespective of what the causes are, contributory to the high rate of interest for the other two classes?—A. Of course, I cannot answer that question absolutely, but I would say this, that the general impression one gets from the mortgage companies is that they rate the interest on a sort of average rate; in other words, they insure themselves under the good risks.

Q. I do not think that any exception will be taken to that. In other words, it is like a grocer doing business on a credit basis; he must carry the bad accounts on the good ones, and in the loaning business the good loans must pay for the poor loans. That is pretty well accepted I think.

Mr. KELLNER: Does that apply in banking?

Hon. Mr. STEVENS: Generally speaking, undoubtedly. I am not seeking to raise an argument. I am not asking these questions for the purpose of drawing Dr. Tory into a trap or anything of that kind. I want to try and get a proper basis for what we are to consider.

*By Hon. Mr. Stevens:*

Q. Now, in a scheme that for instance would provide an ample supply of credit for the number one and number two classes on their basis, it would be possible to do it on a very much lower rate of interest than they are to-day doing it; if we segregate these into those three classes, and for the moment eliminate the third class and provide a scheme to take care of the first two classes, the prevailing rate of interest to these two classes will be materially lower?—

A. Certainly, if you eliminate the most risky part of the borrowings, you eliminate the element of danger; but this must be said that no company is lending money to the third class to-day.

Q. I quite appreciate that, but I was saying that that would be the effect?—A. Yes.

Q. Would it not be quite sound to say this, that we ought to segregate this third class and consider it as a problem in itself?—A. That is what the United States is trying to do now.

Q. Do you think we will have to do that?—A. I think so.

Q. It is a problem in itself that must be faced by the country. I am trying to get this thing divided so that we can perhaps approach it from two standpoints. There is sound business in this and there is poor business from the lower standpoint. Now, may I go a step further. Such a general scheme as they have in the United States can be made applicable for a rural loaning scheme in Canada, having in mind the two first classes?—A. Yes.

Q. And it would fairly well solve their difficulties?—A. I think so.

Q. Now, the second class which I mentioned would include particularly our Western farmers who find themselves to-day burdened with heavy obligations regarding machinery, prompt payments on machinery and upon seed where they have had a bad crop and such like, and those loans could be co-ordinated and covered by this American system?—A. I am not inclined to say that that would be the class that would be most benefited by any farm loan of this type.

*By Mr. Garland:*

Q. Is it not true that so far as the Northwest is concerned, the last few years have resulted in a very large cleaning out of that class, of the second class mentioned by Mr. Stevens, and that the first and the last are really the two classes left. Mr. Stevens referred to one class as indebted to lumber companies, machinery companies, and so on; in my opinion they have been largely closed out in the last few years?—A. You can speak probably with more authority on that than I can, but my judgment would be that there is a considerable number of that class left.

*By Hon. Mr. Stevens:*

Q. Now, another step, Doctor. In this Farm Loan Board system, which we have in this document, on page xcix of the report, am I correct in saying that in every instance where the original borrower—the “farmer” is the term used—gets his advances only when the application and indeed his paper, is endorsed by either a co-operative institution or a bank?—A. Yes, excepting where dealing with a joint stock bank.

Q. Even there the joint stock bank must go back of his paper?—A. The joint stock bank makes the loan.

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Q. The joint stock bank does loan direct?—A. Yes.

Q. But in all the other cases—A. Somebody else must endorse.

Q. Now, would you consider that the scheme—having in mind this emergency you were speaking of—whereby the Federal Parliament would make an advance to the provinces, and the provinces through their loan system would receive the securities and endorse the securities, depositing that exact collateral endorsed by them the Government?—A. I have thought of that as embodied really in the suggestion I made. The kind of security which the Dominion Government wished to take from the local Government might involve the collateral from the mortgages, and the responsibility would be—as it is here ultimately, should the borrower fail—on the local Government. I doubt if having the mortgage put through the Government would add anything to the security. The local Government would probably be the security.

Q. Would you suggest the Federal Government making an advance, say \$25,000,000, to a province, and allow the province full liberty in making a loan?—A. No, I would not suggest any such sum. I was thinking of the moderate sum, to meet the present emergency, only, until the whole thing could be straightened out.

Q. Never mind the sum; how about the method?—A. If the sum was not larger than the normal borrowing power of the province, I do not see why it should not make the loan to the province, and hold the province responsible.

Mr. SHAW: Similar to the housing scheme?

The CHAIRMAN: In the Housing Scheme and the Highway Act, the same thing took place, but there were regulations by Order-in-Council to govern the conditions for advancing to the individual municipalities.

The WITNESS: I think that should be done.

*By Hon. Mr. Stevens:*

Q. Now, in connection with the banks—I put the question to Mr. Neill, this morning, and he very promptly and very frankly responded that the banks would welcome any workable scheme in rural credit schemes. Have you considered a scheme whereby we could secure the co-operation of the large banking systems of Canada in connection with rural credits?—A. I had a discussion with two or three of the bank men about the possibility of the banks helping, say the local banks, the Dominion Government and the local government joining hands on it, and I found an expression of good-will as to the possibilities of that.

Q. Would you consider this,—and I am not reflecting at all, but just stating the cold-blooded facts—would you consider yourself sufficiently informed on the whole question in Canada and the possibilities of the application of the rural credits to enter into a conference with bankers now, and representatives of the Government?—A. I think I would know enough about it to take part in the discussion.

Q. You think it is far enough advanced for practical discussion?—A. Yes, but as I said the other evening, I would have liked to have had a chance for observation right in the heart of the country. I could not do it in mid-winter; it was impossible.

Q. What do you think of the suggestion put forward by the Minister of Finance—and when I say “The Minister of Finance”, I mean his nominee, and the Bankers’ association, or a representative of them, and yourself, to enter into a conference for a study of this question with a view of immediate legislation—and I mean by “immediate”, this session?—A. It will take some little time. Personally I am quite prepared, if needed, to drop everything else and go at it.

Q. Do you think there would be any result?—A. I would doubt whether we would get far enough for legislation this session, because I imagine any legislation of that sort would be fairly contentious, and it might take time

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to get it straightened out, unless we could get all the parties to agree upon it beforehand.

Q. Having in mind this emergency legislation of which we have been speaking, do you think that such an emergency legislation as we might be able to design and pass this session would meet the needs of this third class—the most unfortunate class, and the class which presents the greatest problem?—A. I have very grave doubts about that, Mr. Stevens, and the possibility of any emergency legislation meeting any considerable number of this third class, of which we are speaking. Some of the members would know better about the conditions in the country than I do.

Q. Then, have you considered this—let us not make it solely Canadian, but take your experience and observation in the United States—would you think it advisable for the Government, for instance, to encourage a wholesale bankruptcy movement on the part of these people, let them go into bankruptcy. If it is hopeless—if the thing is so hopeless as many of the investigations would seem to indicate? Have you considered that?—A. I have thought of that, Mr. Stevens. This is the way it appeals to me. There are certain people who will ultimately go into bankruptcy, and it can be fairly well determined in dealing with individual cases who these people are, but the experience of Mr. Fraem of the Debt Adjustment Bureau, has shown that with a little care in bringing together the debtors and the creditors—the various groups of people concerned—adjustments can be made that would bring a great many such men through. That is to say, they will not go through a Bankruptcy Court, but schemes would be reached to give these men a chance to start over again. They have had a good many cases of adjustment in Alberta; I do not know just how many, but I think several hundred all told, with very great success. The gentleman, Mr. Fraem, who has been handling the matter, I feel sure, would say that he does not want any interference whatever, but desires to be allowed to work it out with the mortgage companies. He has found such good will and such effort to make adjustments, that he does not want any interference at all.

*By the Chairman:*

Q. Do they proceed under the Bankruptcy Act?—A. No, they meet around a table, and they say “Here are this man’s assets, and this is how much he owes”—I have not followed the details, but I know of a good many cases of that kind.

*By Hon. Mr. Stevens:*

Q. What I am trying to come to is this. Is there any hope for this third class, and if so, is there anything we can discover to bring about partial or whole relief, having in mind all these things, particularly your last reference to this experience in Alberta? Do you consider there is any legislation we can pass this session that will bring relief to this third class?—A. It would certainly bring relief to that third class whose affairs on adjustment would make a mortgage a reasonable way of getting them started again, and adjusting their indebtednesses, perhaps compromising,—I think that is the word used in bankruptcy—so a mortgage could be taken on their property.

Q. That is acting on a scheme such as Alberta is now using?—A. Just getting local groups of the men working on it and trying to find a way out.

Q. Then you think that could only be done by passing what we will call an “Enabling Act,” placing in the hands of the Federal Government a sum of money with which they may deal with this emergency?—A. Really, after thinking it over carefully, I have not seen any other way out immediately unless they decide it is the duty of the Federal Government to go into this business and run in competition with the local government, to start loaning money in the country, but I doubt if we could get very far this session.

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*By Mr. Garland:*

Q. There would not be much competition, just now.—A. Not much, I suppose.

*By the Chairman:*

Q. They are not loaning any further presently, but already they are borrowers?

*By Hon. Mr. Stevens:*

Q. Have you any estimate of what would give a measure of relief?—A. No, I have not.

Q. Have you any knowledge of any figures we could secure which would give us an estimate of that?—A. I think an estimate could be had. I tried to get an estimate in Manitoba, for example, but I did not get any very satisfactory information. It was said to me in Manitoba, "If we had three or four million dollars it would be a tremendous relief". That general remark was made.

*By the Chairman:*

Q. In Manitoba?—A. Yes. I do not know how far \$10,000,000 would go in the solution of the difficulty.

*By Mr. Maclean:*

Q. Have the local government any particular scheme, or have they made any representations to the Dominion Government for relief?—A. No, I think the local Government was waiting for the result of this discussion. They listened with more than interest, and were waiting anxiously for action last year—hoping that something might be done. I think it is their attitude of mind to-day that they are waiting for relief. I know I spoke to Mr. Black at Winnipeg, and also to Mr. Reid, our Treasurer in Edmonton, and suggested if they were going to pass legislation, they should hold it until we could get a chance for a conference, and they felt that something had to be done, and perhaps would be done, here.

Q. Then the local Government are looking forward to a conference?—A. I think they would welcome that. I am speaking only of the western governments.

MR. COOTE: I think we are having rather a wide latitude in the matter of rural credits, and I want first to ask the Chairman's permission in what I have to say, that I be allowed to cover the same ground as Mr. Stevens.

THE CHAIRMAN: I think it will be agreeable to the Committee that the greatest latitude be given on this subject. We are trying to obtain as clear a view as we can on the possibilities of introducing legislation to relieve the situation, as we know it exists, therefore, the widest latitude should be given, as I think that is the only way to make any headway.

THE WITNESS: Before Mr. Coote starts, may I add this one word? Mr. Stevens' question has brought out the exact reason why I hesitated to make a recommendation, because the weak point in my investigation is that in the country. I was asked to do this work in the autumn of the year, and I was not able then to get to the country, and when I was able it was impossible to get around very much, and I looked forward to doing that end of it later, when conditions were more favourable. You will see the reason at once why I have hesitated to make any formal recommendation.

*By Mr. Caldwell:*

Q. What do you think of the practicability of a scheme for each province to set up machinery for carrying on farm loans? Would the overhead cost be so

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large that it would be impossible to do it?—A. That is done in some parts of Europe where you have a dense population.

*By Mr. Garland:*

Q. I understand from Mr. Neill this morning that he gave his evidence rather definitely that any long-term credit scheme could not and should not be made a part of the present banking system of Canada. Do you agree with that?—A. Oh, absolutely.

Q. It should not be a part of the present banking system?—A. No.

Q. The sum of money to be loaned ought to be used under a long-term mortgage system of which you spoke this morning, but in your opinion, would that not have to be sufficient to be a competitive factor in the mortgage business, for the purpose of reducing the rate?—A. If it is to serve the general purpose of bringing interest rates down—

Q. You believe it would be of little use to start a system of long-term mortgage credits unless we intended to use it or unless it could be used sufficiently widely to be a factor in reducing interest rates? That is your opinion?—A. Yes.

Q. I do not like to press you with this matter, but I think it is essential—and the question undoubtedly will come up in the framing of the emergency legislation—could you give the Committee approximately the amount required, we will say, in the three Prairie Provinces? I know it will be difficult, but can you make any estimate?—A. I can give it as a suggestion on the percentage basis without question. In Germany, I pointed out, it is on a 40 per cent basis; in France it is a monopoly, of course, the mortgage loan business; in the United States the loans now amount to about 16 per cent. There is no question but that 16 per cent is being effective at the moment. I would say from 16 per cent to 20 per cent.

Q. Then it would be essential that the Government should be in possession as nearly as possible of the actual figures, showing the mortgage indebtedness of the province to which legislation is applied?—A. I am in a very delicate position—if I might say this—

Q. I do not want you to give any figures. I want you to answer this question. In order that this legislation should be of use it is essential that it should be a factor in reducing interest rates. That is it?—A. Yes.

Q. And in order to be a factor in reducing interest rates, a sufficient quantity of money must be available to go into this mortgage business—to reduce the rates?—A. I do not think a sufficient amount of money is available in the sense that we can get it because money grows with demand and when the demand reaches 20 per cent I think it would become tremendously effective.

Q. The primary object of the establishment of any long-term credit system should be placing it on a competitive basis?—A. One of the primary objects.

Q. Then in order to achieve that, it would be necessary that the federal government should be in possession of the actual facts regarding the extent of mortgage loans now outstanding?—A. I don't think so.

Q. How can they arrive then at an estimate?—A. I do not think they seek to arrive at an estimate. I think the estimate will come normally, as all loans are made it will act. The American Government did not have exact figures as to mortgages when they started in, but just as soon as they started the loans, they soon reached the competitive stage, but they did not know how far they would go, but with the system of finance it did not make any difference how far it went, because each man capitalized his own loans; it is on perfectly safe ground; they do not care how high it goes.

Q. If the emergency suggestion which you made here was brought into effect, the provincial government would borrow directly from the Federal



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government?—A. I do not say how it should be done. I think it is a detail they will have to work out, but I suggested the loans be made from the Dominion to the local governments.

Q. It just occurred to me and I was wondering if you had thought about it, that the provincial governments are having some difficulty at the present moment in securing funds at a low rate of interest, sufficiently low to make it worth while borrowing?—A. Yes.

Q. If they would commence borrowing heavily from the Federal government in order to put through this business, would it not impair their credit for other purposes?—A. I think there is a very grave danger of the credit of the provincial governments being impaired by over-borrowing and over-lending, but I do not think the amounts they could lend under any temporary scheme would be very very great; the machinery could not work fast enough to make them very great.

Q. You think it would be possible to establish some system of direct federal loans at the moment, pending the development of your long terms credit scheme, to the rural organizations now established; let the loans be made direct to the provincial governments without any direct responsibility, at least, on the surface. That would be credit damaging, so far as the provincial governments are concerned, but that the rural credit associations would be responsible—the collective credit of the borrowers would be responsible to the Federal government?—A. There is no legal difficulty in the way; it is a perfectly simple thing to arrange.

*By the Chairman:*

Q. Would you advise the Federal government to do that?—A. In our own province, the one I know the best, Alberta; there are only 25 co-operative associations in the province.

Mr. STEEDSMAN: That is about right.

The WITNESS: You would have to begin to create a lot more legal machinery.

*By Mr. Garland:*

Q. It could be done anyway?—A. You would have to create machinery here to do this in some way.

Q. My idea was to use the provincial government up to the limit of its ability.—A. I think the practical difficulty is to convince the Dominion government that it would be wise.

Q. That is the only difficulty?—A. I think that is the real difficulty.

*By Mr. Good:*

Q. In that connection, the situation in Ontario is that, so far as long term loans are concerned, we have no local organizations; it is done directly by the Farm Loan Board.—A. Yes, that is quite right.

Q. In that case, any extension of federal aid in Ontario would have to come through the provincial organizations' administrative machinery, because there are no local organizations looking after long term loans. That may be different in other parts of the province, but I would think it would be very difficult, unless you equalize the machinery at the present time in existence. It does seem to me it might be worth while for the Dominion to consider the loans and hold the province responsible. I do not know whether that could be done or not. They might run chances, but sometimes it is not a bad thing to run chances.

*By Mr. Caldwell:*

Q. I would like to ask you to give an expression of opinion as to what might be done for the provinces like New Brunswick which has no machinery set

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up. We have a provincial Farm Settlement scheme, which is used as a colonization scheme, and a Dominion Soldiers Settlement Board with branches in New Brunswick. Will you think the matter over as it affects New Brunswick?

—A. The Soldiers Settlement Board might be effective there.

Q. Would there be a possibility of handling it through the Soldiers Settlement Board or the provincial Farm Settlement Board?—A. It is quite possible.

*By Mr. Garland:*

Q. Doctor Tory, when Mr. Stevens was examining you this afternoon he referred to the fact that in well-settled districts the rate of interest, under the commercial mortgage system was naturally lower than in more sparsely settled districts. Now, is it your opinion that under any long term system of rural credits, to be of any value to this country, there should be a variation in the rate of interest over the province?—A. No, I do not think he was asking me to say there was. He was simply speaking of a question.

Q. I am not imputing anything to Mr. Stevens.—A. Yes, but in my reply I was referring to the practice of mortgage companies, under the practice of a scheme like this, where there can be only one rate of interest.

Q. You believe then there should be an average rate of interest for long time farm mortgages over the whole country?—A. Yes, consistent with a security—only with a certain type of security.

*By Mr. Steedsman:*

Q. You concur in a general way with the classification given by Mr. Stevens, that is, classifying the borrowers within the three groups?—A. I could classify them in two or three other ways equally effective.

Q. But that was generally understood that was about the classification into which they would fall?—A. Yes.

Q. Now, with regard to the province of Manitoba again. Would you suggest that the need for an emergency fund coming to the relief of the provinces at the present time would be to take care of, generally speaking, the loans that are, say, coming due this year; if they could not renew them it would place the men from class two into class three, of the classifications we were speaking of a while ago; this to take care of the people who are in danger of getting beyond a limit of solvency. You would not recommend any great amount be advanced to any province, but only a limited amount to take care of the cases of that nature?—A. The cases that were in danger.

*By Mr. Good:*

Q. Doctor Tory, do you think ten or fifteen million dollars would be quite effective as relief this year, taking the country as a whole?—A. I would doubt if the machinery in existence could handle effectively more money than that. Then again I am subject to the opinion of the men who know the whole nature of this machinery now, but I suspect that is as much as could be handled. I would say ten million dollars as the outside limit.

*By Mr. Benoit:*

Q. For all the provinces?—A. Yes.

The witness retired.

The committee adjourned.

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COMMITTEE ROOM 429,  
HOUSE OF COMMONS,  
THURSDAY, June 5, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Mr. Vien the Chairman, presiding.

The CHAIRMAN: The Acting Minister of Finance has a statement to make to the Committee.

Hon. Mr. ROBB: Mr. Chairman and gentlemen, at a previous sitting you will recall that a statement was made that the Government had under consideration an amendment to the Bank Act to provide for more adequate inspection. I will table that proposed amendment so that it can be printed in the records. It is a proposition which I hope will meet with the approval of the Committee.

Proposed amendment tabled. (See page clviii).

Hon. Mr. ROBB: The high spots are briefly these: This new officer will be known as inspector, and will be appointed by the Minister and hold office subject to good behaviour. He may be removed by order in council for misbehaviour, incapacity or incompetence. It shall be the duty of that inspector to examine the head offices of all banks at least once a year, and any branch that he may consider necessary to examine. It is proposed that the confidential reports which, under the present Act, are made by the shareholders' auditors and sent to the directors shall be sent to the inspector. They will be available. Then, the inspector will be given the power to examine the general manager or any officials of any bank under oath. Under the present Act, if a bank goes wrong or if there is any indication of a bank going wrong, there is no provision for winding that bank up until it suspends payment; that is, the Minister cannot step in. It is proposed under this amendment that when the inspector is satisfied that a bank is insolvent he will report to the Minister and we will then ask the Bankers' Association to assume responsibility and appoint a curator. That will automatically stop a bank from going on and taking deposits. Generally speaking, that is what is involved in this proposed amendment, but incidentally, I would like to say—it is not in here—that it has been suggested that the inspector's report to the Minister should be available to the president of the Bankers' Association. I would like time to consider that feature of it, and I should also like the Committee after this had been printed, to consider the amendments we propose and also that feature which I have just suggested. It is also proposed that the banks shall be assessed on the basis of their assets for the cost of this inspector and of the officials who will be connected with that feature of the work. I suppose that this will go on the records and will be discussed at a future meeting.

Mr. W. F. MACLEAN: I would like to ask the Minister in connection with this matter whether the proposed inspector is to be independent of the Finance Department and as a matter of duty will inspect all the banks when he sees fit, and not wait for any instructions from the Minister.

Hon. Mr. ROBB: Yes, it will be his duty to do bank inspection, but he will be an official of the Finance Department. Some department of the Government must be responsible, and the Finance Department is responsible in these matters. As a matter of fact, under the Act, it is the Minister of Finance who has to stand criticism if anything goes wrong with a bank.

Mr. W. F. MACLEAN: In the United States, they have an inspector, an examiner of banks, who is independent of the Treasury Department.

The CHAIRMAN: No, Mr. Pole distinctly stated to the Committee that he himself as the Chief National Banks Examiner was an official of the Treasury Department. He is not only under the Secretary of the Treasury, who is their Minister of Finance, but he is also under an official who is the Comptroller of Currency. The Comptroller of Currency is under the Secretary of the Treasury.

Hon. Mr. STEVENS: Is this to be presented to the Committee in the form of a proposed draft amendment to the Bank Act?

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: Will it be introduced into the House first, or considered here first?

Hon. Mr. ROBB: I am submitting it to the Committee for consideration before submitting it to the House.

Discussion followed.

Mr. SHAW: I would like to ask the Minister if these two proposed amendments, one providing for inspection, and the other giving the Minister power in the event of a bank's insolvency to close that bank are to be taken as the Minister's only achievements in the matter of amending the Bank Act? Has he taken up, for instance, the matter of precedence of Government deposits, or any other of the many issues that have been raised with regard to the safeguarding of deposits?

Hon. Mr. ROBB: When these are printed tomorrow, the hon. gentleman will be able to judge for himself.

Mr. SHAW: I am asking the Minister now. Of course, if he wants us to wait until to-morrow—

Hon. Mr. ROBB: There is nothing here of the nature you suggest.

Mr. SHAW: Then the Minister does not propose any further amendments.

The CHAIRMAN: The Minister has said that the report is tabled and will appear in the proceedings of the Committee to-morrow. Other subjects in the various resolutions on our order paper are not covered by this amendment, but that does not mean that the Minister will not propose any further amendments.

Discussion followed.

Mr. W. F. MACLEAN: I would like to ask the Minister whether under this legislation he proposes to co-ordinate a number of the offices in connection with the Finance Department, somewhat similar to the co-ordination of a number of offices under the Comptroller of the Treasury at Washington. For instance, when he is appointing an inspector of banks, I would like to see him go a step further and have that inspector—a man to whom I would be prepared to pay a salary of \$25,000 or \$30,000—take charge of the Government issue of notes, take charge of rediscounting for the banks, and have a regular organization for that purpose. Perhaps he could take charge of the Mint also and take charge of the banks' issue of currency as well as of inspection and the Mint. He should be an officer responsible more to Parliament and the public than to the Department. The public would then have more confidence in him. He would also take charge of another important thing, which has disappeared. The greatest savings bank in Canada for a long time was in the office of Deputy Receiver General. I understand that the Deputy Receiver General in the Maritime Provinces and also in British Columbia took deposits. In Toronto we have the best savings bank we ever had in the office of the Deputy Receiver General in that city. But for some reason or other he ceased taking deposits some years ago. I would like to ask the Minister if the Deputy



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Receiver General is taking deposits and doing bank business in that respect in the Maritime Provinces and in British Columbia. I hope the Minister will consider these suggestions and that they will go on the record.

Hon. Mr. ROBB: Answering Mr. Maclean, I would like to remind him and the Committee that the Government have now a trustworthy and competent official at the head of the Department in the present Deputy Minister, an excellent man, who has been many years in the service. The proposition is that the inspector general will be directly under the Minister, but he will devote his time to this special work. As regards other features of it, these will be matter for consideration. I am not one of those who are prepared to admit that Canadians are inferior to the people of any other country; nor am I prepared to admit that the United States has a banking system that is better than the banking system of our country. Under our Finance Act, every provision is made for rediscounting in banks and the proof of it is that during all the years of the Finance Act we have not had trouble.

Discussion followed.

Mr. W. F. MACLEAN: The Minister was going to answer my question about the Deputy Receiver General.

Hon. Mr. ROBB: I will look into that, Mr. Maclean.

The CHAIRMAN: Mr. Spencer moves that Mr. Edwards be recalled.

Motion agreed to.

Mr. GEORGE EDWARDS recalled.

*By Mr. Good:*

Q. I have not had a chance to ask Mr. Edwards any questions yet, and I would like to ask a few; I hope I will not take up too much time. Mr. Edwards, since when have you been connected with the Finance Department?—A. Do you refer to banking matters?

Q. Yes.—A. My first instructions from the Finance Department, in connection with bank matters, were to examine the affairs of the Merchants Bank.

Q. After that, when?—A. After that, to consider how the experience in the Merchants Bank case could be introduced into the Act, what improvement could be made to the Act.

Q. You were responsible, I presume, along with the Minister of Finance for a number of the amendments that were brought down last year?—A. I offered the Minister a good many suggestions.

Q. Since the close of last year, how long have you been connected with the Finance Department, inspecting or looking into banking affairs?—A. When the provisions of the new Bank Act came into force, certain provisions in October, I was called in to examine special information furnished by the banks, special returns which the Minister had called for.

Q. Since October, about how much time have you put in on this particular work?—A. Not a great deal.

Q. About how much?—A. In the examination of those returns, I should say, not more than ten days at the outside.

Q. During the last eight months, approximately?—A. Yes.

Q. Did you secure any sufficient information during those ten days?—A. Yes.

Q. Some of which is of a confidential character, I suppose?—A. That is as I understand it, yes.

Q. Do you consider that ten days' examination of the returns made by bank auditors—I presume that is what you were examining—has been sufficient to warrant you in making suggestions for this year?—A. My examination of the

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special information furnished by the banks has been of such a nature that I can cover it very well and form a very sound opinion upon the subject within the ten days.

Q. You spoke of special information furnished by the banks. Who required that information?—A. The Minister.

Q. On your suggestion or recommendation?—A. I offered the Minister advice on the subject, yes.

Q. You said you wanted certain information from the banks?—A. Yes.

Q. And he asked the banks to furnish that information, and they furnished it, and you examined it?—A. Yes.

Q. And you came to certain conclusions after the examination of that evidence?—A. Yes.

Q. Would you be prepared to give this Committee some information regarding the situation as you found it, if we sat in camera?—A. With the Minister's consent, yes.

Q. Have you made any investigation as to the comparative bank failures in Canada and in other countries, say during the last ten or twenty-five years?—A. I am aware generally of what every one knows as to the extent of bank failures in the United States and in Canada.

Q. I understand there has been some dispute as to the facts in that connection, and I ask you whether you personally made any investigation?—A. I have not made any investigation of the situation in the United States. All my information as to that comes from official reports.

Q. Do you think it would be wise that the shareholders of banks should have further information regarding the banks' affairs, such, for instance, as was suggested by the amendment of last year which I read to Mr. Neill the other day. I do not know whether you were here or not. For instance, requiring that

“That profit and loss statement shall include and show on the one part the amount of

(a) Balance of profit and loss account carried forward from previous year;

(b) Rebate of interest on unmatured bills as at close of previous year;

(c) Gross profits, including balances of all interest, commission, exchange and other revenue-producing accounts;

(d) Premium on new stock sold;

(e) Bad debts recovered, previously written off, and the statement shall include and show on the other part;

(a) Expenses of management and operation;

(b) Interests paid on deposits;

(c) Interest reserved on unmatured bills;

(d) Amount written off bank premises;

(e) Amount transferred to appropriation account for losses;

(f) Amount transferred to officers' pension fund;

(g) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail;

(h) Dividends declared (specifying number and date);

(i) Amount transferred to rest account;

(j) Balance at credit of profit and loss account.”

This, you will observe is some additional information, which, it was suggested last year, should be included in the annual statement for the information of shareholders and the public. What is your judgment as to the amplifica-

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tion of the returns in that respect?—A. A certain amount of the information suggested by the schedule which you have just read is already furnished to the shareholders at their meetings.

Q. Is it in the annual statement, or is it furnished verbally?—A. I have seen a great deal of it in the published statements; for instance, as to the amount written off bank premises, the amounts of dividends. I cannot recall all the categories, but I remember the amendment to this effect; I think that is the substance of the amendment last year?

Q. That is right.—A. After I examined that amendment particularly, I came to this conclusion: There was a great deal of it which was already furnished to the shareholders; there was some of it which was not properly an element in a profit and loss statement, and should not be so treated; and there was some information provided for there which under the method of accounting of a bank could not be got out in that way.

Q. You say that some of this information is already being furnished to shareholders. However, it is not required to be furnished by the Act, is it?—A. It is usually furnished but not required to be furnished under the Act.

Q. Would it not be better, in your judgment, to have the requirements somewhat extended so as to make the statements of all banks similar in form by the inclusion of further items?—A. I think that the present statement required to be furnished to shareholders could be amplified to some extent.

Q. Would you be prepared to examine into that and make a statement to the Committee as to what further items might be included with profit?—A. Yes.

Q. I hope, that Mr. Edwards, with the consent of the Committee, will make a further recommendation in that direction. Do you think any information should be given as to the various investments, the classification of investments, that this matter should be made public?—A. The classification now provided by the Act is fairly ample but it might be extended.

Q. Is it desirable that the public should know the general character of a bank's investments?—A. Oh yes. I suggest that they are already able from schedule (g) to determine with fair accuracy the character of a bank's investments. The question of amplifying schedule (g) is one that might be considered, although I am not sure that it could be amplified to a very much greater extent.

Q. What is the idea of not making public the appropriation accounts? That matter received consideration last year, and it was discussed here the other day?—A. The appropriation account, should not I think, be made public for this reason: An appropriation account is an amount set aside to provide for expected losses. Now, the policy of the banks is not the same with regard to the treatment of that account. Some banks will carry an amount, a doubtful loan, at its face value and carry a proper reserve in an appropriation account. Another bank will write that loan down to the extent of the probable loss and carry nothing in the appropriation account. In these circumstances, it might easily mislead the public, not knowing the method of treatment or the position of the bank in regard to its appropriation.

Q. Have you made any investigation as to the earnings of Canadian banks compared with the earnings of banks elsewhere during the past ten years?—A. No, I have not.

*By Mr. Garland:*

Q. Would you permit me, Mr. Good, to ask a question? Do you know whether it would be advisable to have some regulation established, say, by the

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Bankers Association or by some other organization, which would compel banks to have a regular form of presenting their contingencies or appropriation accounts to the public. In that case, what objection would you have to the publication of the appropriation account?—A. My difficulty is that I cannot think of a plan for standardizing such a practice. It is almost impossible, when you consider that every loan that has any element of doubt about it, will differ from every other loan that has an element of doubt about it. You cannot apply an arbitrary rule to a matter of that kind. I do not see how it can be done.

Q. You said that the banks' practice varies?—A. Yes.

Q. In regard to the treatment of the same type of fund?—A. Yes. For the purpose of your question I am giving you an additional consideration; that is, it would be very difficult indeed to apply an arbitrary rule as to appropriations for all classes of bank loans as to which there was any element of doubt.

Q. Does the witness know if it is particularly essential that there should be, as far as possible, standarization of the method of showing the condition of the banks to the Minister of Finance at least; and is it not necessary that the public should know these things. If the banking business is in such a shaky state that the publication of its appropriation account and contingencies' account might destroy the banks, is it not just as well to take steps to remedy that situation?—A. It might not destroy the banks, but it might give a misleading impression as to the position of the banks.

*By Mr. Good:*

Q. I was going to ask you whether you had made any investigation as to the earnings of Canadian banks compared with the earnings of banks elsewhere, say in the United States and Australia and so on, within the last ten years?—A. No, I do not know anything more than any one might know.

Q. If you were an inspector of banks, do you think it would be your duty to look into matters of that sort?—A. I think the question of the earning power of banks, as to whether they can carry on under the conditions that are prevalent is a very important question; the earning power of a bank is probably the chief consideration.

Q. If you found a bank paying dividends out of capital, what would be your duty, if you were an inspector?—A. It would depend upon what the duties would be, whether they were defined by statute or otherwise. But speaking generally, the duty of the inspector would be to quarrel with that and take such steps as would be effective to put an end to practices of that nature.

Q. In the matter of proportion between the total capital of Canadian banks and the total liabilities—that has been under consideration for some time—have you any views as to what might be called a safe proportion?—A. I would not be an authority on that subject.

Q. Should an inspector of banks be an authority on a question of that sort?—A. He should have an opinion and he should endeavor to fortify his opinion by reference to better authorities than himself.

Q. Suppose that you found the proportion between the total capital and the total liabilities of banks in the United States, Europe and Australasia was twice as great as it is in Canada, would you consider it more or less of a menace to the Canadian banking system if you found a growing disparity?—A. I would consider it a subject for inquiry.

Q. You have no information at the present time as to what it might involve?—A. I have not.

Q. Have you looked into the proportion between the amount of a bank's capital and the amount invested in premises?—A. Not very closely.

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Q. Do you think that that is a matter which should engage the attention of an inspector?—A. I do.

Q. If he found that too much in proportion was invested in premises, it would be a matter for remonstrance?—A. Both that and the question of whether there was a sufficient writing down of the premises to eventually bring the bank out of that position.

Q. I take it that in your judgment, an inspector ought to see that too great an amount is not invested in bank premises and that the writing off is proceeded with at a reasonable rate?—A. Yes.

Q. Do you know from your examination of the returns furnished by Canadian banks—those special returns—whether or not the banks which have lost deposits have been able to reduce their losses in comparison, or have had to depend on advances from the Government?—A. I am not prepared to answer that.

Q. Have you looked into the matter at all?—A. I have not. You will understand that anything I have done has been done under direct instructions. I have not been given any roving commission or anything of that kind:

Q. Your instructions have been specific?—A. Yes.

Q. Can you give them in a general way? Have they been to ascertain as to the solvency of Canadian banks?—A. They have been to consider the information that comes to the Minister other than in the form of special information, and to advise him respecting the position thus disclosed.

Q. I presume the purpose is to discover whether or not there is any serious danger to any other banks?—A. Practically to see whether they are solvent or otherwise.

Q. You would not care to express any opinion in public on that matter?—A. No, not without the Minister's consent.

Q. Have you looked into the proportion of salaries and expenses in Canadian banks compared with banks elsewhere?—A. No, I have not, because the information is not now furnished by the Canadian banks.

Q. Do you think that information should be furnished?—A. It should be available, yes. In my reply to your first question about particulars in the profit and loss schedule, I would say that the Minister should have all that information. I am not at present expressing any opinion as to how much of it should be available for the shareholders.

Q. You think that the fullest possible information should be given to the Minister confidentially?—A. Yes.

Q. You do not know of any payments of dividends in Canada, out of capital during the last few years?

Mr. HEALY: Do you mean authorized capital, or authorized capital plus surplus?

Mr. GOOD: I should have said out of capital, plus reserve.

The CHAIRMAN: Not authorized, but paid-up.

*By Mr. Good:*

Q. Do you know of dividends being paid out of reserve which the capital had not earned?—A. Yes, in the Merchants Bank case dividends were paid out of reserve.

*By Mr. Marler:*

Q. May I interject a question there. There is no real reason why dividends should not be paid out of reserve?—A. Not at all, if they care to take the responsibility for doing so. There are certain limitations upon dividends. Of course, they must have thirty per cent of reserve in order to declare a dividend over eight per cent.

Mr. Good: I had some figures, but I take it that the witness' investigation has been of such a character as would not render him capable of answering the questions. I was hoping that Mr. Edwards would furnish some information. He has spent ten days on the examination, and I realize that he is not in a position to give us detailed information.

The CHAIRMAN: Have you any definite question that you would like to put to Mr. Edwards or that you would like him to investigate?

Mr. Good: Not at present.

*By Mr. W. F. Maclean:*

Q. About the capitalization of banks, take the case of the Home Bank; what was its capitalization?—A. \$2,000,000.

Q. Do you know now how long before it ceased operations it had impaired its capital?—A. Quite a number of years, Mr. Maclean.

Q. And is this the case that while it had impaired its capital, it continued to issue notes to the full extent of its capital?—A. Yes, or reasonably up to that.

Q. Do you think there should be an amendment to the Bank Act to the effect that a sort of audit should be kept on the banks so that when they impair their capital their privilege of issuing notes should be reduced to the amount of their impaired capital?—A. Yes.

Q. This is one of the scandals of banking up to the present. There have been cases where the capital has been impaired for years and yet there has not been any limitation in that direction. I hope you will make a suggestion of that kind to the Minister.

*By Mr. Spencer:*

Q. I would like to ask a few questions. You are aware no doubt, that in a pamphlet which the Bankers Association circulated amongst the members, they stated that depositors had a fourth mortgage on the assets of the bank in case of failure?—A. That is so although I do not just remember seeing it there.

Q. Now, what protection, in your opinion, has the depositor?—A. Well, the bank must be solvent and must be doing a profitable business. I should say that these two considerations should be present, and any knowledge that will assure the depositor that that will be the case would be the best assurance he could have.

Q. What protection, in your opinion has a depositor in a bank?—A. He has none, excepting the knowledge that the bank is a sound financial institution.

Q. That he thinks the bank is sound?—A. Yes, that is his judgment, I suppose.

Q. Take, for instance, the Home Bank case which has been insolvent since 1916, I understand, and where the public have been allowed to deposit on the understanding that it was sound.—A. Yes.

Q. Would you say that the double liability is a safeguard to depositors?—A. To a certain extent.

Q. You would not care to say to what extent?—A. I have already said, I think, in my previous evidence before the Committee, that I think it might be depended upon to the extent of 50 per cent. My attention was directed to the fact that a couple of banks which had wound up their affairs had collected a much larger percentage, and I took the trouble to look into it and I find that the two banks mentioned, the Bank of Yarmouth which failed in 1905 collected 84 per cent, and the Ontario Bank collected 84 per cent.

*By the Chairman:*

Q. In what year?—A. In 1906. In the case of the Sovereign Bank, the total amount collected on account of double liability was \$179,000, which is a

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very small percentage compared with its capital of \$3,000,000. That was in 1908.

*By Mr. Morin:*

Q. Have you the figures for the Bank of St. Hyacinthe?

*By Mr. Benoit:*

Q. Or the figures for the Banque de St. Jean?—A. That bank had a capital of \$500,000.

MR. MARLER: There is one question I would like to ask before the witness leaves that particular point.

AN HON. MEMBER: Give us the list of banks that you have.

WITNESS: I will put it in. I obtained this information after I had been examined previously on the subject. The Banque de St. Jean was suspended in 1908. It had a subscribed capital of \$500,000. The double liability collected amounted to \$161,000, about one-third. The Banque de St. Hyacinthe—

*By Mr. Benoit:*

Q. What was paid to the depositors?

THE CHAIRMAN: Let the witness give the amounts collected on the double liability and the percentages; then we will ask questions.

MR. MARLER: Before these questions are asked, I think Mr. Edwards will agree with me—is it not the case that the double liability, irrespective of percentages or amounts, was simply collected in many of these cases to the extent that it was necessary to collect. In other words, a small amount may have been collected because that was all that was necessary. Was that not the case in the Sovereign Bank? I do not want any misapprehension to arise.

THE CHAIRMAN: I would suggest that Mr. Edwards give us the figures and then we could perhaps supplement his information by putting questions.

WITNESS: I think it very important to understand the question which Mr. Marler has put because it may be so in some of these banks with which I am not familiar.

*By the Chairman:*

Q. Have you the figures for other banks?

*By Mr. Benoit:*

Q. What about the Banque St. Hyacinthe?—A. It had a subscribed capital of \$504,000 and the payments on account of double liability amounted to \$156,000. In the case of the Farmers Bank—this is a test case.

*By the Chairman:*

Q. In what year?—A. 1910. Its subscribed capital was \$584,000, and the double liability payments to March 12th, 1924 amounted to \$314,000, a little over 50 per cent. The Bank of Vancouver, which is a pretty bad case, suspended in 1914, and had a subscribed capital of \$587,000. The double liability payments to April 13th, 1923 amounted to \$148,000.

Q. In respect to those banks, could you tell us whether those collections were the total that could be collected, or whether they were simply what it was necessary to collect?—A. I cannot answer that question in all cases, Mr. Chairman, yet it is important.

Q. Could you get it and give it to the Committee?

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*By Mr. Benoit:*

Q. In the case of the Banque de St. Hyacinthe, only one-half of the authorized capital was paid up and I would think that your figure covers payments on the unpaid capital?—A. That is not my information, but I will note that and endeavour to make sure of it.

The CHAIRMAN: Your suggestion is that the total liability was not called.

Mr. BENOIT: It was called, but the amount given by the witness covers the balance due on the unpaid proportion of the shares.

*By Mr. Spencer:*

Q. Can you give the Committee an idea of what has been collected from the double liability in the case of the Home Bank?—A. Not yet, it is still in the early stages.

Q. The collection has been rather poor up to date, I believe?—A. I think so.

Q. What is to prevent shares from being transferred to men of straw previous to a bank's collapse?—A. Nothing.

Q. What is to prevent a shareholder being so heavily in debt to a bank as to off-set his value as a shareholder to the depositor in double liability?—A. Nothing.

Q. Were the Home Bank auditors qualified men?—A. The Home Bank auditor was not a chartered accountant; he was not a trained accountant in the sense that I understand it.

Q. Were they as well qualified as the auditors who audit other banks?—A. The auditors of other banks are men who are practised in accounts and are in daily contact with commercial and other forms of accounts. In the case of the Home Bank the auditor was occupying a position of an academic sort; he was employed at a college in Toronto, and I do not see how he could possibly have the opportunities for acquiring the knowledge by personal contact with business sufficient to enable him to audit properly that bank.

Q. Did they have the same auditor from 1916 until 1923?—A. Yes.

Q. Was he a member of the Chartered Accountants?—A. No.

Q. Do the banks have to inform the Minister of Finance as to who they are having to inspect them?—A. As distinguished from an audit?

Q. No, when a bank engages auditors to look over their books, do they have to notify the Minister of Finance and give the names of the men they have engaged?—A. I think it goes to the Minister of Finance in the form of the public statement which has to be certified and furnished to the Minister.

Q. The Minister of Finance, since 1916, would have a knowledge of who was auditing the Home Bank accounts?—A. Oh yes.

Q. And with that knowledge they saw fit to let them go on auditing the accounts from 1916 to 1923, thinking it was in the public safety?—A. I do not know how the Minister could know very much about the professional competency of the man who was appointed to audit the bank. Under the revision of 1913, there were no qualifications provided in the Act whatever, as to who might be an auditor. Conceivably, he might not even be an accountant. But if his name was found in the list, for any reason, he would be eligible for appointment as auditor. I think they were all accountants.

Q. I take it that the suggestions put forward by the Acting-Minister of Finance this morning, with regard to the appointment of an inspector general—if a man of that calibre had been engaged to audit the books of the banks the carrying on of the Home Bank would have been impossible?—A. Would you just ask that question again, please?

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Q. If the recommendation put forward to this Committee by the Acting Minister of Finance this morning had been in effect, and we had had an inspector general as outlined by him, would it have been possible for a man such as you outlined to audit the Home Bank's accounts for many years without being reported to the Minister of Finance? Would an inspector general have allowed him to carry on?—A. I would say absolutely no.

Q. What was to stop any other bank from employing a similar man to audit its books?—A. There is now a provision—

Q. Brought in last year, but up to 1923?—A. None.

Q. There is no reason why any bank in Canada could not have been audited by a man similar to the man who audited the Home Bank's books up to 1923?—A. None whatever.

Q. Did the Home Bank send the regular returns to the Minister of Finance?—A. Yes.

Q. Were these returns examined by Government officials?—A. I cannot say personally.

Q. You need not answer this question if you do not want to, but do you understand that they were not examined, otherwise pigeon-holed?—A. I would not care to say that; I do not know.

Q. If they did examine them, how did the weaknesses of the bank escape notice since 1916?—A. I think the forms of the returns did not lend themselves to an intelligent judgment upon the bank's affairs.

Q. Then why did the Government—I will not say any particular Government,—not have those returns made by the banks and sent to the Finance Department examined in the interests of the public?—A. I cannot answer that.

Q. It is the fact that they have been sent in, and that although there were weaknesses in our Canadian banking system as evidenced in the Merchants Bank, the Home Bank, and the Banque Nationale, those returns were not checked sufficiently so that the Government could warn the public?—A. I think one of the theories regarding one of those returns is that if the information is made public, every one will have an opportunity to form an opinion as to the position of the bank. In other words, publicity rather than honesty of judgment in the Department.

Q. In the past we have had a list of returns in the Canada Gazette which meant nothing. We were under the impression that those returns were checked up by the Department, and that if there were any weaknesses in the system they would be looked into by the Finance Department. We know perfectly well now that those returns may have been good or false returns—in some cases they were false, and therefore the public have been under a great handicap because those returns were not examined closely. Do you agree with that?—A. To some extent, but the state of the law is partly responsible for that.

*By Mr. Good:*

Q. Is it your contention that the returns themselves were ineffective or deficient?—A. I think they were deficient, and I think the state of the law, as developed at the trial of the Merchants Bank case, showed that the information furnished by those returns was necessarily defective information; that is to say, it took account of books rather than of facts.

*By Mr. Spencer:*

Q. The returns were not only defective, but they did not safeguard the public interest because they were not inspected?—A. I would not say because they were not inspected, but they did not safeguard the public interest.

Q. If they were inspected, the deficiencies in the returns were not recognized by whoever inspected them?—A. I think the answer is—take the Home Bank

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returns, there is nothing in the Home Bank returns, month by month, to the Department under the provision of the old Act, from which officials of the Finance Department would be able to form an opinion as to the weakness of a bank.

Q. You will agree then as to the absolute necessity of having, not only a more thorough public inspection, but a Government inspection, outside of the banks' inspection, as outlined by the Acting Minister of Finance this morning?—A. I think there should be some additional information available to the Department, which is obtainable only by an appointed officer.

*By Mr. Garland:*

Q. Was any complaint ever made to the Department of Finance regarding the qualifications of the auditor of the Home Bank?—A. I am not aware of any.

*By Mr. W. F. Maclean:*

Q. In connection with deposits in the bank, is it a fact that the notes issued by a bank are a priority on the deposits?—A. They are a priority on the assets.

Q. If we had a Government currency in place of the bank note currency, there would not be need of that responsibility on the depositors to redeem notes issued by the bank?—A. I cannot see any difference in the case of Government currency. A bank would have to pay for it and that would take so much of the assets out of the bank.

Q. If they paid for it and got legal tender and deposited it with a so-called Government reserve bank, and the bank notes came out of another place—when these bank notes come out they have to be paid out of depositors' money?—A. The bank has to have a corresponding amount of assets to take care of that situation.

Q. Would it not be better in the interests of banking, in the interests of shareholders and in the interests of depositors that a Government currency should take the place of the bank note currency which exists now and which is a charge against the deposits in the bank?—A. I do not think it would make any difference.

Q. Would it be better for the public?—A. I do not think it would make any difference to the public.

*By Mr. Spencer:*

Q. I would like to take—A. May I quote from the Act for Mr. Maclean's benefit, Section 61.

"Except as hereinafter provided, the total amount of the notes of a bank in circulation at any time shall not exceed the aggregate of—

(a) The amount of the unimpaired paid up capital of the bank—

*By Mr. Maclean:*

Q. Did that take place in the case of the Home Bank?—A. You said that that was not in the law at the present time and I am pointing out that it is.

Q. Was it observed in the case of the Home Bank? Were they not issuing notes for years against an impaired capital and were they not doing an illegal thing?—A. That is another question. I was simply dealing with the suggestion that it was not in the Act.

*By Mr. Coote:*

Q. May I ask you to explain that word "Unimpaired," that is capital unimpaired?

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*By Mr. W. F. Maclean:*

Q. The Home Bank capital was impaired six years before?—A. It was never admitted that it was impaired.

*By Mr. Benoit:*

Q. Which authority controls the issuance of currency?—A. The Bankers' Association is charged with the duty of seeing that the bank currency is not overissued and it is regulated in various ways.

Q. The Government has no authority at all to supervise?—A. The Minister?

Q. The Government or the Minister has no authority to supervise the issuance of the currency?—A. I am not sure that I understand the question.

*By the Chairman:*

Q. The hon. member would like to know whether the Finance Minister can control the currency?—A. The Minister of Finance collects interest on any over-issue. That is in the nature of a deterrent. A bank cannot always be sure that it is always within its statutory powers, when a bank has several hundred branches; until the monthly reports come in, it is not known exactly how the circulation of the bank is. If it happens to be over issued, a bank at once endeavours to correct that, and as a penalty for that over-issue, they pay to the Minister a fine.

*By Mr. Benoit:*

Q. How do they know?—A. The banks will know when they get their returns.

*By Mr. Coote:*

Q. Is the Minister dependent on the information which the banks furnish in knowing whether the banks have overissued or not?—A. Yes.

*By the Chairman:*

Q. What is the power of the Minister to deal with banks to reduce their circulation?—A. There are penal clauses in the Act which enable the Minister to take action and to have officers of the bank fined.

Q. But outside of that?—A. There is nothing.

*By Mr. Coote:*

Q. Have you ever known a bank pay the Department for an over-issue?—A. Oh yes, they are paying it all the time, whenever it occurs it is done. There is quite a substantial item of revenue comes in in respect to that.

*By Mr. Healy:*

Q. How does the Bankers' Association supervise the issuance of currency?

*By Mr. W. F. Maclean:*

Q. Why should the Bankers' Association supervise the issuance of currency; that is the point?—A. I think that if I read section 124 I will be accurate; I do not want to make any mistake. (Reads).

"The Association may, at any meeting thereof with the approval of two-thirds in number of the banks represented at such meeting, if the banks so approving have at least two-thirds in par value of the paid-up capital of the banks so represented, make bylaws, rules and regulations respecting:—

(a) All matters relating to the appointment or removal of the curator, and his powers and duties;

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(b) the supervision of the making of the notes of the banks which are intended for circulation, and the delivery thereof to the banks;

(c) the inspection of the disposition made by the banks of such notes;

(d) the destruction of notes of the banks;

(e) the custody and management of the central gold reserves and the carrying out of the provisions of this Act relating to such reserves; and

(f) the imposition of penalties for the breach or non-observance of any by-law, rule or regulation made by virtue of this section."

*By Mr. Healy:*

Q. When did that section become law?—A. Sixty-three and sixty-four Victoria—quite a long while ago.

Q. That was the law during the life of the Home Bank?—A. Yes.

Q. And the Bankers Association allowed the Home Bank to over issue currency for the past six years?—A. I do not know just how to accept the form of your question, Mr. Healy; the facts are well known. The notes were issued up to or nearly up to the paid-up capital of the Home Bank.

Q. And yet they allowed the Home Bank to issue currency beyond its legal right?—A. Just what the Bankers Association actually did I am unable to say.

Q. I am asking you this: The Bankers Association for the past six years exercised that legal authority?—A. I do not know; it was their power.

Q. They had that legal authority?—A. They had the power to do so, yes.

Q. And during the past six years the Home Bank did issue currency beyond its legal right?—A. Yes.

Q. Although it was in the power of the Bankers Association to prevent that?—A. It was in the power of the bank to do the things set down in the Act. I do not know—I want to be clear on this—how the Bankers Association would exercise that power unless they knew what the unimpaired capital of the Home Bank was. I do not know what the measure of responsibility of the Bankers Association would be in the absence of definite information as to the impairment of the capital. I would prefer not to offer an opinion on that; that is all.

Q. It will be for somebody else to judge what the legal responsibility of the Bankers Association was, but if they did not have the knowledge, or had no way of getting the knowledge of the condition of the Home Bank, it was very dangerous to put them in charge of the issue of currency, was it not?—A. I think that is a fair inference.

*By Mr. W. F. Maclean:*

Q. Is it not a fair result of that that there ought to be some high-class official to look after these things instead of leaving them to a Bankers Association or private organization?—A. That is the same question that I think I have answered several times.

Q. What is the answer to it? We have got the Bankers Association and I would like to ask what the country ought to have for its protection in this case.

Mr. MARLER: Mr. Healy—

Mr. W. F. MACLEAN: I asked for an answer. In view of this condition that the Bankers Association have not functioned, what protection does he sug-

[Mr. George Edwards.]



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gest for the public? Does he not think there should be an official like the Comptroller of Currency in the United States?

WITNESS: I think a Government-appointed official such as I have indicated would be able to perform these duties.

*By Mr. Coote:*

Q. Just to make it clear to some members who I think are not very clear on this point, would Mr. Edwards tell us whether it is a fact that bankers really order these notes to be printed to any amount they desire for any particular use?—A. I do not know what the fact is, but I would assume that they exercise the functions described there. I have no access to the Canadian Bankers' Association's affairs at all.

Q. You have access to the affairs of some of the individual banks. Is it not a fact that they have notes printed very much in excess of the amount they are allowed to issue?—A. Yes, necessarily so.

Mr. MARLER: Printed, not issued.

WITNESS: Printed, but not issued. The restriction is on the issuing, not on the printing.

*By Mr. Coote:*

Q. Is it a fact that the banks do issue at times more notes than they are allowed to under the Act?—A. Occasionally.

Q. Is it a fact that under the present procedure a bank may exceed that to quite a large amount without the Department of Finance being aware of it?—A. No.

Q. You say it would not be possible?—A. I think it would not be possible.

Q. In what way would the Department of Finance be able to know that the bank had issued more than it was allowed to?—A. By its own reports.

Q. By the bank's own reports?—A. Yes.

Q. Have you known banks to furnish false reports to the Government?—A. Not in that respect.

Q. In any other respect?—A. Oh yes, the Home Bank did, I think.

Q. Would there not be more temptation to furnish false reports under this particular item than in some things that they do furnish?—A. I cannot say anything about the temptations of the banks.

Q. Would it not be quite as possible to furnish false reports in this regard as in any other?—A. It would be possible.

Q. Is there not a great temptation to over-issue when they have in their vaults a larger supply of these notes than they are allowed to have?—A. The temptation to a good straight-forward banker would be nil; to a banker whose institution was in a precarious position, he might be tempted that way.

Q. Is it not rather a dangerous privilege to give to the banks to print notes and not limit them to the amount which they can print?—A. I do not see any particular danger about it.

Q. If you had to examine the affairs of a bank that had become insolvent, and you found an excess issue of say \$1,000,000 worth of notes which they had issued on the last day they were open—A. I did not find that.

Q. Would you not think that this is a dangerous privilege that is given to the banks?—A. It might lead to that conclusion.

Q. Do you think that the public of Canada have any idea that the banks have the privilege of printing notes, practically, without any limit?—A. I do not suppose that the public think very much about it. If they examined the situation, they would find that it is necessary for a bank to have an excess quantity of notes printed.

Q. Do you know of any other banks in the world that have that privilege, outside of Canadian banks?—A. I have no information at the moment. I understood there are some banks in Europe, but I cannot answer the question of my own knowledge.

*By Mr. Irvine:*

Q. You say it is absolutely necessary under the Canadian system to have an excess of notes printed?—A. I say that a bank has to have a supply available of its own notes beyond the amount in circulation. If it was not so, it would have no currency at all with which to transact its daily business.

*By Mr. Spencer:*

Q. Necessarily of its own notes?—A. If a bank has the privilege of issuing its own notes up to the amount of its capital and intends to take the fullest lawful advantage of that privilege, it is necessary to have an excess quantity of notes printed.

*By Mr. Good:*

Q. So that they would not ship the notes from one place to another?—A. The Bank with a large number of branches would have to have a reserve supply at each of its branches.

*By Mr. Coote:*

Q. A bank can issue more notes than it is privileged to issue under the Act before the head office is aware of it?—A. It might happen.

Q. It has often happened?—A. It has happened.

Q. I intend to move in this Committee that the Bank Act be amended by providing for a limitation of the amount of a loan which can be made by any bank to any person, firm or corporation to an amount not exceeding 10 per cent of the paid-up capital and reserve funds of the bank. I would like to ask Mr. Edwards whether he remembers a motion along somewhat similar lines last year and whether he opposed it at that time?—A. I think I offered this opinion, that a rigid limit of that kind might hamper a very sound and legitimate business transaction.

Q. In connection with the Merchants Bank case, if such a clause as this had been in operation at that time, is it not probable that the Merchants Bank would not have got into difficulties?—A. In order to answer your question it is necessary to recall all the characteristics of that large loan which the Merchants Bank made. I understood there that that loan had reached those proportions by reason of unauthorized acts of the local manager of the Montreal branch, very largely.

Q. Do you think he would have had power to make a loan of this size if this provision had been in the Bank Act?—A. Well, unauthorized things have been done before. I do not know just what would have been in that case.

Q. Would it be proper to draw the inference from your statement that anythink we put in the Bank Act is of no value because it may be violated by a manager?—A. No, I think there is a sincere intention on the part of the banks to observe the conditions of the Act.

Q. Now, in connection with the Banque Nationale, would such a provision have not probably saved that bank from the difficulties in which it found itself?—A. From the little I know about the outstanding circumstances that made the difficulty for the Banque Nationale, the increase of the loan there was with the hope that it would pull the concern through.

Q. And instead of pulling the loan through, it pulled the bank under?—A. It has happened, Mr. Coote, that support given to a business concern under

[Mr. George Edwards.]



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such circumstances has pulled the business concern through. It has also happened that such support was not sufficient to pull it through. There is no absolute rule for determining the advisability of supporting such concerns. It must be in the judgment of the directors, the men who understand the position and are presumed to have examined all the circumstances.

Q. I would like to ask the same question in regard to the Home Bank. Was the Home Bank wrecked by loans larger than this limit I propose?—A. Both large and of bad quality.

Q. But if loans limited to that size had been transacted, is it not quite probable that the Home Bank might still be in operation?—A. If the Home Bank had confined itself to legitimate, good banking business along the lines of loans, it might have been in existence.

Q. Would you say that it is advisable to put such an amendment as this in the Bank Act in view of your experience in examining the affairs of defunct banks?—A. I would be prepared to try it out and see what sort of amendment could be suggested which would not hamper the banks unduly in their legitimate business.

Q. We are chiefly concerned in this inquiry with the safety of depositors. Would not this add, to the safety of depositors?—A. It would in this sense: The more widely the risks of a bank are distributed, the safer the depositors are.

Q. Is it fact that some of our present banks have more than 50 per cent of their paid-up capital tied up in what might be termed frozen loans!—A. I cannot say whether that is so or not.

*By Mr. Marler:*

Q. Did I understand you to say that the banks had frequently over-issued as regards notes?—A. Frequently, but accidentally I consider. I do not think it has been intentional in any case.

Q. As regards intentional over-issuing, that has not occurred at all?—A. I do not think the banks have intentionally over-issued, certainly not within my knowledge.

Q. Really a pure accident?—A. A pure accident.

*By Mr. Irvine:*

Q. I understood Mr. Edwards to say when being cross-examined by Mr. Coote that the over-issue of notes was a necessity on the part of the banks?—A. The over-printing of notes is a necessity.

Q. What is the use of printing if they are not to be issued when required?—A. Take a bank with 500 branches, each one of these branches will have to have a certain amount of the bank's own currency in its own vaults to take care of its own transactions across the counter. If it has not its own notes, it cannot cash a cheque except in legal tender.

Q. The point I am trying to make is—A. As long as their own notes are in their own possession, it is so much waste paper. It only becomes an obligation when they issue the notes, it is a promise to pay.

Q. It is a promise not to pay at the present moment. The point is they are printed with the view of being issued and being needed, else they would not be printed at all?—A. An excess quantity is printed with the view of issuing.

*By Mr. Marler:*

Q. An excess quantity printed but not issued?—A. No, printed with the view of being able to supply them to all its branches.

[Mr. George Edwards.]

The CHAIRMAN: When required at a given time.

*By Mr. Irvine:*

Q. You will agree that if they were not printed, they could not be issued?—A. If they were not printed, it is possible that the full privilege allowed them by the Act could not be availed of.

Q. Would it not be better to safeguard the over-printing than the over-issuing?—A. I do not see any difficulty about over-printing, if the Bankers Association will regulate the requirements of a bank in excess of its issue.

Q. The point is clear that the best way to prevent a bank from over-issuing would be to prevent it from over-printing?—A. It would be the effectual way, certainly.

*By Mr. W. F. Maclean:*

Q. Is it not a fair conclusion from your evidence of this morning that the Bankers Association, inasmuch as they have failed to function, according to what you have said.—A. I have not said that.

Q. That the Bankers Association ought to be under inspection.

Mr. SPENCER: That is one question—

*Mr. F. W. Maclean:*

Q. I want that answered. Should the Bankers Association be inspected in the same way as the banks are for fear that they have failed to function as authorized by the Act?—A. I think it is a fair thing to say that the Minister should know how well or how badly the Bankers Association is fulfilling its function.

Q. And therefore, an inspector should inspect it?—A. I suppose that should be it.

*By Mr. Spencer:*

Q. Was the Home Bank a fully paid up member in good standing of the Bankers Association?—A. I understand it was a member of the Bankers Association.

Q. A fully paid up member?—A. I do not know, I am not sure what the financial scheme of the Bankers Association is; I cannot answer your question.

Q. Do you know whether it was in good standing?—A. There seems to be a contribution of some kind, pro rata, to the Bankers Association expense account.

Q. It was in good standing, I take it?—A. I understand so.

Mr. SPENCER: May I ask Mr. Ross if the Home Bank was in good standing as a member of the Bankers Association?

The CHAIRMAN: As it is five minutes past one o'clock, I think we should adjourn. I will try to give Mr. Spencer an opportunity to put the question to Mr. Ross another day.

Witness retired.

The Committee adjourned.



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## HOUSE OF COMMONS,

COMMITTEE ROOM 429,

WEDNESDAY, June 11, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m.

The CLERK: I am very sorry to have to state that Mr. Vien, the Chairman, has been called to Montreal on account of illness in his family, and there being no Deputy Chairman, I must ask you to nominate an Acting Chairman.

Mr. MACKAY: I move that Mr. McMaster take the Chair.

Mr. IRVINE: I second that.

Mr. McMaster having taken the Chair.

The ACTING CHAIRMAN: I thank you gentlemen.

HENRY T. ROSS, called, sworn and examined.

*By Mr. Spencer:*

Q. Was the Home Bank a member of the Bankers' Association?—A. It was.

Q. What constitutes a membership of the Association?—A. Having obtained a charter and the right to carry on business. The membership is under the Statute; it is not at the will of the members of the Association, or the Association itself. The Home Bank was a member of the Canadian Bankers' Association by virtue of the Statute.

Q. Then the Home Bank was a member in good standing?—A. There is no question of good standing. Parliament enacts that a bank which receives a charter is a member. There is no question of good standing.

Q. And, therefore, all the banks are members of the Bankers' Association?—A. Yes.

Q. Did the Bankers' Association know of the condition of the Home Bank prior to the 17th of August, 1923?—A. You mean its insolvent condition?

Q. Yes?—A. No.

Q. Did it know that it had its capital impaired?—A. No.

Q. Referring to Section 124, subsection B regarding supervision of the Bankers' Association, the making of notes and delivery of same to the banks: I would like to ask what supervision they are exercising?—A. At the present time there is this supervision under the Associations's by-laws passed pursuant to the Statute referred to. Any bank-note company which prepares notes for circulation by banks has to make a return to the Association on the shipments of any notes to a bank, a return of the number of notes, their denominations, and all particulars. Then the bank itself has to return, under its by-laws, to the Association the number of notes received from the bank-note company. Ledger accounts are kept of these receipts and one is checked against the other. The Association also receives from each bank a certificate, under its by-laws, of the destruction of its notes after they have become soiled and worn. That description is signed by three of the directors of the bank, and sets forth the details of the denominations and number of notes destroyed, under the personal supervision of the directors. These destructions are then charged against the notes in the possession of the bank and the volume of notes in possession of the bank is that much less.

Q. Do I understand that the three directors all belong to the one bank?—A. Yes, three directors of their own bank.

[Mr. Henry T. Ross.]

Q. Is there any supervision from other banks?—A. No.

Q. Any other supervision from any outside official?—A. No.

Q. Treasury official?—A. No.

Q. Then it is left entirely to individual banks, through their own officials, as far as destruction of the notes is concerned?—A. Yes. That is, for solvent banks. In insolvent banks the Association is represented at the destruction.

Q. The Bankers' Association, I presume, did not know that the Home Bank was insolvent after 1916?—A. It did not.

Q. And therefore they were allowed to go on in the same way as if they were a solvent bank?—A. You say "Allowed to go on?" There was no right to disallow their going on.

Q. Now, as they went on, although they were insolvent, and in that way not only broke faith with the Bankers' Association but with the Finance Department in the returns they were sending in, is it not possible that something may have gone wrong with regard to the destruction of notes?—A. No. I think the sequel shows there was nothing wrong with the volume of circulation returns of the Home Bank. The great bulk of the notes of the Home Bank have been turned in to the liquidator, and they are quite within the volume of notes that were credited as being issued by the bank.

Q. You say a record is kept? You mean a record of each individual bank is kept?—A. Yes, and I may add that every month a statement is issued by the Association of the circulation of each bank, and the notes received from the bank note company, the notes destroyed, the balance at the date of the preceding statement, and the balance in the possession of the bank at the date of the statement. That is printed, and circulated among the members so that all may have a knowledge of the bank note account in each individual bank.

Q. Is there any other way in which the Bankers' Association are exercising supervision over the issue of notes?—A. Well, at the moment I cannot think of any other way. Yes, there is too. I may say I have not completed the activities of the Association under its bylaws in that behalf. Once a year there is an inspection made on behalf of the Association of the circulation account of each bank. By resolution of the Association I have made that inspection for the last eight years each year. I visit the head office of each bank and examine all the returns of note circulation made by the various branches. The branches have to make returns of the note circulation at the end of each month, that is to say they give a statement of the notes that are in possession of the branch. These, with the notes in the possession of the treasury of the bank, as it is called, at the head office, constitute the notes in the possession of the bank. That deducted from the account referred to kept in the bank, of the notes received, less the notes destroyed gives the outstanding circulation of the bank.

Q. Now, I would like to ask a few questions in regard to the operation of the Finance Act, taking it through until the notes are issued by the Dominion Government, placed in the Gold Reserve, and private bills issued. Under the Finance Act of 1914 I understand that various securities can be taken by the bank to the Treasury Board and rediscounted at a certain margin. Is that so?—A. That is correct. Perhaps the word "re-discounted" is not the technical word. These securities are pledged under the Finance Act to the Government, and advances are made against the securities pledged.

*By the Acting Chairman:*

Q. But, sir, as a rule, this pledging would be of securities which had already been pledged with the bank?—A. No. If you speak of securities meaning

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Government bonds or municipal bonds, etc., no. It is the bank's own property which is pledged, or it might be grain paper, we will say, and this would be the obligation of an individual customer of the bank.

Q. In that case the word "re-discounting" would be fairly accurate?—A. No. There will be a volume of these grain securities or notes placed with the Treasury Board, or its agent, and advances will be made on margin, as Mr. Spencer has suggested, perhaps 85 per cent or 90 per cent—I do not just know what the percentages are—against the sum total of these obligations. The individual obligations are not re-discounted. An advance is made against the securities when they are pledged.

*By Mr. Irvine:*

Q. Would city bonds be taken in that case?—A. Yes, under the Finance Act of 1923.

Q. Take, for instance,—I do not know whether I should mention any particular city.

The ACTING CHAIRMAN: Call it "City X".

*By Mr. Irvine:*

Q. The bonds of "City X" in a certain year were worth 100. To-day they are worth 50 and are still deposited with the Treasury Board. Do you think that is a safe deposit?—A. I suppose in that case the Treasury Board would probably say that 75 per cent of the market value might be loaned against this.

*By Mr. Euler:*

Q. If they depreciate after they have been deposited is there any action possible?—A. That has to be looked after by the Treasury Board. They could call for further securities, under the regulations.

*By Mr. Spencer:*

Q. Can any security pledged to a bank by their customers, either individuals or a corporation, be turned over to the Treasury Board to get advances on?—A. It would be within the legal right, but I do not think it is used in practice.

*By Mr. Maclean:*

Q. Is there any re-discounting?—A. No, not as that term is used; it is "advances on security."

*By Mr. Euler:*

Q. What are the natures of the securities?—A. There are five classes, beginning with Dominion Government securities, municipal securities, grain receipts, documents representing grain, and trade paper representing agriculture or commerce in any form.

*By Mr. Spencer:*

Q. As I understand it, commercial notes signed over to the Finance Minister?—A. Yes.

Q. And accepted by him?—A. Yes. I might add though that the volume of advances in each class of securities has been relatively small in the past. The general advances have been against Government securities of the highest class.

Q. We know that Dominion notes are issued to the bank, but I understand it is not their custom to put them into circulation?—A. The bank gets what are called "large legals;" they take their advances in large legals.

[Mr. Henry T. Ross.]

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Q. For convenience?—A. Yes. These are employed either in making clearing house settlements between the banks, to discharge demands upon the banks in connection with their business, or they may be deposited in the Central Gold Reserve. I think the bulk of them probably are used for clearing house purposes.

Q. Those are placed in the Central Gold Reserve—they have the option of issuing dollar for dollar their own notes?—A. Yes.

Q. I understand the reason for this is to enable the bank to have a large number of printed notes through their various branches which could not come into circulation until they were passed over the counter to the public in case of a run on the bank?—A. No. If I may say so, I think you are confused with something else. The bank's own notes up to its capital are not in that classification at all.

Q. No restriction there at all?—A. No.

Q. I am talking about notes issued against the Dominion notes put in the Central Gold Reserve?—A. Yes.

Q. Is it a fact that the banks hold notes that are ready for issue but are not in circulation until they pass over the counter?—A. Yes.

Q. I understand that was a fact?—A. Yes.

Q. These are private bank notes to enable the bank to meet a run on the bank, and when they are issued it is an extra quantity of notes, and they would at once redeposit with the Treasury Board security to cover it.—A. No, that operation could not take place.

Q. What happens if these notes are issued in any large amounts?—A. The bank must have the notes of the Dominion in the Central Gold Reserve before it can pay out any of its own notes. It cannot wait and cover the transaction afterwards by the deposit of Dominion notes in the Central Gold Reserve.

Q. Then you mean to say that although you are paying 5 per cent on all Dominion notes put in the Central Gold Reserve, you are not using them dollar for dollar in the circulation of your own notes?—A. I do not quite follow you. Just state that again.

Q. You are paying 5 per cent on all Dominion notes that you have against security?—A. Yes, under the Finance Act.

Q. Do you not use that privilege to the full in issuing your own notes?—A. The bank tries to get as close to the limit as possible. It does not want to pay 5 per cent any longer than it has to. It wants to minimize the difference between deposits and circulation.

Q. You admit the banks keep a quantity of notes behind their counters which do not come into circulation?—A. Yes.

Q. And therefore, no charge is made upon them?—A. I do not understand you.

Q. You have a charge of 5 per cent on everything you put into the Central Gold Reserve, against which you issue private notes?—A. Yes.

Q. What quantities are kept ready for circulation, which does not actually go into circulation?—A. That statement which the Association gets out every month shows the quantity of notes which the bank has in its possession unissued—quite a large volume.

Q. There can be an unlimited non-issue?—A. No limit to that. There is a very definite limit to the issue, though.

Q. Referring to Section 61, sub-section 2; what steps do you take to see that the bank—speaking now for the Bankers' Association—do not over-issue more than their unimpaired paid-up capital?—A. The Association has to depend upon the returns made by the particular bank to the Association, in the first instance, and there is, in addition to that, the inspection of which I have told



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you, namely, that an officer representing the Association examines the books and the returns of all branches to see that the bank has not made a false return. That inspection may take place any time. It is only required by the regulations to be made once a year, but at any time the officer representing the Association can go into the bank and see all its books, including the returns from all its branches, which is the basis of its record of note issue, and check them up, to see if they are in accordance with the returns the bank actually made.

Q. And yet, with that thorough inspection, is it not a fact that the Association did not realize that the Home Bank had an impaired capital?—A. That is different. I do not think that really concerns the question. The paid-up capital of the Home Bank was impaired, as we now know, and the bank's officers made a declaration, for which they are liable, that it was not impaired. Under the Statute the bank's officers make a return to the Department and say, "Our paid-up capital is so-and-so, unimpaired." There is no statutory power given to the Association to go behind that statement. We have to accept that statement.

Q. Then is there anything to prove that inasmuch as the Home Bank directors made a false statement, other banks may not have made false statements, and so misled the Bankers' Association?—A. In all the checking of the circulation accounts of the banks, so far as the records go, there has been no evidence that any bank has wilfully made a false return in that behalf—in regard to its circulation.

Q. You had no evidence, I take it, as far as the Home Bank was concerned since 1916, although they were in bad shape from that time on?—A. Yes.

Q. Therefore, it is possible that another bank might be in the same position?—A. It is possible, but I do not think it is probable.

*By Mr. Marler:*

Q. Mr. Ross, the question of re-discounting and pledging was brought up by Mr. Spencer as regards the Finance Acts of 1914 and 1923?—A. Yes.

Q. As a matter of fact, is not the same end gained by re-discounting and pledging, under the circumstances?—A. Yes, the same thing is accomplished.

Q. It is really the substitution of one word for another?—A. Yes.

Q. Whether we use the word "re-discounting" or "pledging" with reference to the banks and the Finance Act, precisely the same object is gained?—A. The same results follow.

Q. You spoke about large legals being given by the Finance Department to the bank?—A. Yes.

Q. Those are given for the purpose of convenience only?—A. Yes.

Q. Small legals could be given just as well, if necessary?—A. Yes, and are, in practice, in order to suit the convenience of the banks.

Q. And these small legals could be put into circulation?—A. Yes, and are, in fact.

Q. And the large legals are issued for the purpose of convenience; nothing more and nothing less?—A. The bank uses the bulk of the large legals it gets under the Finance Act from the Finance Department to meet its obligations in the clearing house. There are no issues of its own notes in that connection.

Q. But they could give small legals just as well?—A. Yes.

Q. And would, if you demanded them?—A. Yes.

*By Mr. Healy:*

Q. Mr. Ross, what is your business?—A. I am the Secretary-Treasurer of the Canadian Bakers' Association.

Q. How long have you held that position?—A. It is approaching eight years.

[Mr. Henry T. Ross.]

Q. And what was your position before that?—A. I was Assistant Deputy Minister of Finance.

Q. For how long?—A. Ten years.

Q. And what is your profession?—A. I was a solicitor by profession.

*By the Acting Chairman:*

Q. A member of the Bar, I presume?—A. Yes. I practised my profession for a number of years.

*By Mr. Healy:*

Q. In regard to a bank issuing notes, there are, as I understand it, only two persons interested in the issuance of notes; the bank issuing them and the Canadian Bankers' Association?—A. The members of the Association, yes.

Q. The Government has nothing to do with it?—A. The Government has nothing to do with it excepting that returns are made to the Government like any other returns.

Q. But they have no control whatever? They have not been given the legal right?—A. Well, the Government has some control.

Q. If it has, let me know what it is?—A. If it develops that a bank has over-circulated, the Government considers the case, and finds the bank has over-circulated—

Q. That is a supposition. There is no legal method or legal machinery by which they have control?—A. No.

Q. Under whose control are these notes issued?—A. Under the control of the individual bank.

Q. And the Bankers' Association?—A. The Bankers' Association might suffer if an over-issue was made.

Q. But it goes further than that; it is the law?—A. Yes.

Q. It is set out by statute?—A. Yes, the Bankers' Association has the control which I have already detailed to Mr. Spencer about procuring the notes and keeping the accounts.

Q. Am I clear on the point that there are only two people,—if you wish to call them "people"—the bank and the Association, in control of the issuance of notes? That is correct?—A. Well, coupling them is not exactly correct, Mr. Healy.

Q. Well, they are the two engaged; I do not care whether you couple them or not?—A. Yes, in the manner I have described.

Q. What is the foundation, in the first place, for the issuance of any notes by the bank?—A. Paid-up capital.

Q. And it is further restricted to unimpaired capital, is it not?—A. Yes.

Q. Paid-up unimpaired capital?—A. Yes.

Q. Are you of the opinion that the Home Bank's capital was exhausted in 1916?—A. I only know what I saw in the Press. I would rather follow what Commissioner McKeown said about that.

Q. That was the conclusion arrived at?—A. Yes, I understand the liquidators said its capital was impaired in 1916.

Q. But you cannot agree?—A. I cannot disagree, because I have no knowledge.

Q. If you cannot agree, would it be fair to say you disagree?—A. I do not know whether I am called upon to say whether I agree or disagree.

Q. You are called upon now, because I am asking you?—A. That does not necessarily follow that I should go through a process of mind.

Q. Is that your opinion?—A. I fully believe that the capital of the Home Bank was very badly impaired.

[Mr. Henry T. Ross.]



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Q. In 1916?—A. Well, I don't know just when. Quite a time before its failure.

Q. Then it is fair to say that since 1916 the Home Bank had in the neighborhood of \$2,000,000 in circulation that had no legal foundation for its issuance?—A. I would not say that. I would not agree to that. I would say that the notes, so far as the public were concerned, and so far as the bank was concerned, had legal issuance.

Q. I understand you to say that the only foundation for legal issuance was paid-up and unimpaired capital?—A. Yes.

Q. And there was none since 1916?—A. So far as the forms are concerned, the notes were legally issued—

Q. I am not speaking of the forms; I am trying to get at the fact.—A. I will not agree that the notes were not legally issued.

Q. Well, would it be safe to say that they were legally issued, so far as the paper issuance was concerned when there was no foundation in fact for the issue?—A. The capital was impaired, and the Home Bank's officers or directors or manager improperly issued notes.

Q. That is quite true; there is no argument in that; that is established. But the only foundation in this country for the issuance of notes is the amount of paid-up capital unimpaired—A. There is the further foundation that the assets of the bank are behind the legal.

Q. We are getting away from the point; that is not a legal right to issue notes, the assets of the bank; it is the capital and unimpaired capital; there is no doubt about that?—A. No doubt about that.

Q. Is it fair to say that there were \$2,000,000 in circulation that had no real foundation for circulation?—A. That is an indefinite word. There was a real foundation, because all the assets of the Home Bank were by law liable for their circulation. I would call that a real foundation.

Mr. GARLAND: A legal foundation?

The ACTING CHAIRMAN: I do not think we need assist Mr. Healy.

*By Mr. Healy:*

Q. I think our minds are working along the same lines, but our words are not?—A. I think so; I will try and be helpful to you, Mr. Healey.

Q. The law of this country gives certain people the right to issue notes. Is that right?—A. That is quite right.

Q. And the only people are the chartered banks of Canada?—A. Yes.

Q. The only right they have to issue notes is their capital and to the extent that it is unimpaired. Is that right?—A. Yes.

Q. That being the case, is it not fair to say that the Home Bank had no right to issue notes since its capital was impaired?—A. It had no right to issue when its capital was impaired.

Q. Then is it not a right conclusion that since 1916 there were \$2,000,000 in circulation that it should not have had?—A. That is to say, if its capital was impaired to that extent.

Mr. MARLER: Take the \$2,000,000.—

Mr. HEALY: I gave way to you once, Mr. Marler.

Mr. MARLER: My hon. friend is putting the witness in a position—

Mr. HEALY: The witness is able to take care of himself.

*By Mr. Healy:*

Q. We know now that its capital was gone in 1916; the liquidator has said so?—A. If the liquidator says so—

Q. He has said so, has he not?—A. Yes.

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Q. Now, I am going back again to my previous question. Since 1916 the Home Bank had \$2,000,000 in circulation that it had no right to have in circulation?—A. If its capital were impaired to that extent the Home Bank illegally issued these notes.

Q. I thought we had concluded that its capital was gone?—A. I agree with you, I will agree to that extent; you say so and I am willing to agree. I will conclude with you that the Home Bank illegally issued its notes.

Q. Correct. Now the other party to the transaction is the Canadian Bankers' Association?—A. Yes.

Q. The only other party that had any supervision?—A. Yes. The Government had supervision.

Q. That is a visionary supervision that the Government had. The two parties to the transaction were the two I have mentioned?—A. Yes.

Q. As a result, when the Home Bank failed, there were \$2,000,000 of paper illegally issued in circulation?—A. Illegally issued.

Q. In circulation?—A. Yes.

Q. And that became a first charge on the assets of the Home Bank?—A. Yes.

Q. And as a result of that came out of the pockets of the depositors?—A. I do not know.

Mr. W. F. MACLEAN: Among others.

*By Mr. Healy:*

Q. Not among others, because everything else was exhausted. That is the final result?—A. That is your conclusion.

Q. I want it to be yours also.—A. It is a conclusion of law and I am not giving conclusions of law.

Q. It is a question of fact?—A. It is a conclusion of law, I submit.

Q. Well, we will try and make it a conclusion of fact. The depositors lost 55 per cent of the deposits?—A. Yes.

Q. And that loss amounted to a good deal more than \$2,000,000.

*By the Acting Chairman:*

Q. Fifty-five per cent amounts to a great deal more than \$2,000,000?—A. Yes.

*By Mr. Healy:*

Q. Therefore, part of that loss is covered by the \$2,000,000 in circulation?—A. It may be.

Q. If that is the answer, I will take it, but I thought I had led up to what is a conclusion of fact.

The ACTING CHAIRMAN: A question of arithmetic.

Mr. HEALY: Yes, a question of arithmetic.

WITNESS: I wish to state what I reiterated before that if there is an implication in the case of the Home Bank that because their executive made false statements somebody else is liable, there can be no such conclusion. The statute provides that the Home Bank executive shall make a declaration of its unimpaired paid-up capital. The Bankers' Association has to accept it. That is the statutory provision. They have to accept that, and they must decline to accept any further responsibility for any errors or false statements that the Home Bank executive made.

Q. I understand that they are declining to accept responsibility; there is no doubt about that. What we want to find out is whether they should accept responsibility. At any rate that was the result, that the depositors lost \$2,000,000

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on account of the illegal issue of currency. You say the Bankers' Association had no knowledge of the condition of the Home Bank?—A. The Bankers' Association had no knowledge, no.

Q. Had any members of the Association knowledge?—A. I cannot say.

Q. I suppose that the members of the Bankers' Association knew, as every one else knew that the Home Bank had mortgaged all its real estate to Strauss & Company of New York?—A. I suppose that it was public knowledge they knew of it in the way that everybody else did.

Q. I infer that because when anybody else gives a mortgage they know about it?—A. It was published in the records.

Q. And when one of their own members gave a mortgage of all their real estate, I imagine that the other members knew about it?—A. It is quite possible, probable, I think.

Q. Did that not lead them to inquire whether the assets of the Home Bank had gone?—A. I had not knowledge.

Q. Should it not have?—A. I cannot say.

Q. Then this is the condition, and we have had no remedy suggested, that a bank without capital can issue to the extent of what its capital appears to be on paper and no one has any control over it?—A. A bank must have had capital in the first instance.

Q. Oh, yes?—A. It is possible under the existing law for a bank to have had capital and to lose it and to continue issuing its notes against that capital.

Q. To the loss of the final man, who is the depositor?—A. To his loss, if you so put it.

Mr. W. F. MACLEAN: There is no protection under the existing law.

*By Mr. Healy:*

Q. To put it as Mr. Maclean puts it, there is no protection under the existing law for the depositor?—A. If the assets are sufficient, there is ample protection.

Q. We have just gone through a little experience, where the assets were not sufficient?—A. In this particular case, yes.

Q. And the limit may be \$3,000,000, \$4,000,000, \$6,000,000 or \$10,000,000?—A. Any supposition you choose to make.

Q. Depending on the paper capital of the bank. What remedy has the Bankers' Association to offer for that condition?—A. I do not think it is necessary under the law to make any suggestion or offer any remedy.

Q. They are perfectly satisfied with the condition?—A. I have no knowledge of what they think of the question you put.

Q. I thought they act through you?—A. No, I cannot say that they take quite that position.

Q. They are not worrying about this position which exists?—A. They think there is no obligation upon them to pay somebody else's debts.

Q. But this duty was assumed cheerfully by the Bankers' Association?—A. It was put upon them by statute.

Q. And they accepted it?—A. They had to.

Q. And they have carried it along for years?—A. Yes.

Q. When they accept a duty of that kind and do the work put upon them by the country, do you think there is no obligation upon them without regard to who suffers?—A. If they discharge their statutory obligations, I think they have done their duty.

Q. Do you think that is a satisfactory condition?—A. I would not like to say.

Q. What do you think after this morning's evidence?—A. That is a personal opinion.

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Q. You are an expert; what is your personal opinion?—A. I must disclaim being an expert.

Q. There is none if you are not an expert.

The CHAIRMAN: Perhaps he thinks that the definition of an expert is an ordinary man a considerable distance from home.

*By Mr. Healy:*

Q. Do you really think that is a satisfactory condition?—A. I would not like to express an opinion, Mr. Healy; I certainly would like to oblige you.

Q. I will say that the men who paid the \$2,000,000 do not think it is a satisfactory condition?—A. I would hardly think it a satisfactory condition that one individual should be liable for the debts of another.

Q. This goes deeper than that. This is a condition that existed for eight years, when \$2,000,000 of worthless paper, so far as a legal issue is concerned, was floating around this country and finally came out of the pockets of the depositors. Is that a satisfactory condition?—A. It is very unsatisfactory, I should think.

*By Mr. W. F. Maclean:*

Q. I would like to ask Mr. Ross whether he considers that the law should not be amended, in view of what has come out this morning, for the protection of the public. It has clearly come out that this improper issue took place and was circulated for years. Now it comes out that there was an impairment of the capital and that the issue was unjustified. That being the case, does Mr. Ross, as Secretary of the Bankers' Association, not think that the law should be changed in that respect, and that somebody should be made responsible to check off the issue by knowing from time to time what the actual impaired capital of the bank is?—A. Well, Mr. Maclean, there have been remedial measures introduced into the Bank Act of 1923, and there is the additional remedial measure proposed by the Acting Minister of Finance at the present session, which in my judgment should go a long way to prevent a recurrence of what happened in that particular case.

Q. But to check them off. The Bankers' Association has a function to perform, and somebody should function?—A. Their auditors should function, and the inspector-general, if he is appointed, should function in this connection.

Q. You have not got the point I am making, but my statement is in the evidence anyway. We will come to another question. In your previous examination you referred to somebody re-discounting, or making advances against security. Who does that?—A. Under the Finance Act of 1923, a bank only can procure an advance—

Q. From whom?—A. From the Minister of Finance.

Q. But they do not have to go to the Minister of Finance to get their bank issue, the issue against their capital. To whom do they go in regard to that?—A. That is a statutory right given to banks.

Q. Without anybody checking them up?—A. Oh, yes, in the first instance, when the bank goes to the Minister to get a license to do business with the Treasury Board, it must furnish evidence that it actually has its capital paid up in cash. Then, from time to time the officers of the bank make declarations as to the amount of the paid-up capital. That under the statute forms the basis for the issuance of its own currency by the bank.

Q. But there is nobody responsible for checking off that statement of the directors that their capital is unimpaired, at present?—A. Oh, yes, there is.

Q. Who is it?—A. The auditors of the bank.

Q. But who are the auditors of the bank? They are the appointees of

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the bank. Should not the responsibility be on the Minister or upon his Deputy, for instance?—A. The Minister is nominally responsible to see that a bank's capital does not go by the board, and that a bank does not carry on as the Home Bank carried on.

Q. Meantime, there is no protection for the public in the matter of the issue of notes by a bank?—A. That raises the large question as to whether the note-holders have a superior right to the depositor. It is generally conceded that the note-holder has a superior right to the depositor.

Q. Why should he have?—A. He is an involuntary creditor.

Q. You said that a bank had the right to be a member of the Bankers' Association?—A. No, it has not the right; it is made a member by statute.

Q. Then it is a member?—A. Yes.

Q. Is it also a member of the clearing house?—A. No.

Q. Who grants the privileges of the clearing house to an individual bank?—A. The clearing house is a voluntary organization entered into by the banks in a particular city, and the members determine who shall have the privileges of the clearing house.

Q. And they examine into the standing of the banks as to whether they should be allowed the right to the clearing house?—A. I think that any bank which is carrying on under the Bank Act has always been conceded the clearing house privileges.

Q. Was there ever a refusal of membership in the clearing house to any bank heretofore?—A. I have no knowledge.

*By Mr. Hanson:*

Q. I should like to ask Mr. Ross a question with respect to the control of the issue of bank notes. Are there not provisions in the Bank Act which give the Government a certain control over the issue of the banks and certain penalties with respect to over-issue?—A. Yes.

Q. Subsection 16 of section 61 and the penalty clauses contained in section 135?—A. Yes.

Q. Is it within your knowledge that the Government does exercise control under these sections?—A. Yes.

Q. And imposes penalties on the banks if by inadvertence or design, it may be, they have over-issued their circulation?—A. That is correct.

Q. Is that a frequent occurrence?—A. Not a frequent occurrence.

Q. Is it not the fact that the banks as a rule are under rather than over-issued?—A. Yes, they contrive to be well under.

Q. Under the Finance Act of 1914, as amended in 1923, all banks have the power of rediscounting customers' paper. Is it usual for the banks to avail themselves of that privilege, or do they ask and obtain advance on the collateral of their own security?—A. The latter, usually.

Q. On the collateral of their own security, usually?—A. Yes.

Q. Do they ever avail themselves of the other option, namely the rediscounting privilege?—A. The banks are accustomed to get advances against grain paper.

Q. That, of course, would be rediscounting, pure and simple?—A. I am not sure that it takes the form of rediscounting. It is the same in effect. There is no difference in effect.

Q. What happens is, they put up with the Finance Department the grain certificates, which in law are evidences of the title of ownership, and against which they have made advances to customers?—A. Yes.

Q. As a rule they are certificates on grain in transit or storage?—A. Yes.

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*By the Acting Chairman:*

Q. Does it not mean that they rediscount the actual paper which the customers have given?—A. I do not think it is the practice. There may have been instances, but I would say that taking the volume of business presented under the Finance Act, rediscounting or making advances against customers' paper is negligible.

Q. It could be done?—A. It could be done.

*By Mr. Hanson:*

Q. You have instanced grain certificates. Are these in fact the property of the bank or merely titles to the bank?—A. I think that in law they are the property of the bank. Yes, strictly they are the property of the bank. The title passes to them; it is the actual property of the bank to do with it as they see fit.

Q. Therefore, they are pledging their own property?—A. Yes.

Mr. SALES: This raises a very important point, the question of whether a farmer has the right to part with his grain ticket. If Mr. Ross says it is the property of the bank entirely, I would like to know—

*By Mr. Hanson:*

Q. They are offered in security or in trust?—A. Yes.

Mr. SALES: When a farmer has grain in store and the warehouse certificate is issued, he has not parted with his grain and for the bank to pledge that or construe it as belonging to them is altogether wrong.

Mr. HANSON: I think there is a little confusion there. I do not think that any warehouse man would ever pledge to the bank or sell under the certificates grain which is in storage and is not the property of the warehouse man.

The ACTING-CHAIRMAN: The question, I think, that Mr. Hanson is dealing with is where warehouse receipts represent the ownership of grain. Let us say it belongs to a grain merchant, and the grain merchant goes to his bank, borrows money and hands over the warehouse receipt. The bank, on the other hand, takes the warehouse receipt to Ottawa and pledges it to the Department at Ottawa under the Finance Act of 1923 and gets an advance in Dominion bills against it.

Mr. COOTE: Has the bank bought that grain? Does it own the grain?

The ACTING-CHAIRMAN: If the bank has lent money on the grain and has obtained the warehouse receipt, it is a document of title, I presume, and they can take that document of title and rediscount it with the Finance Department.

Mr. HANSON: Just the same as a bill of lading.

The ACTING-CHAIRMAN: I would think so.

*By Mr. Shaw:*

Q. You have told us that the Bankers' Association knew nothing of the condition of the Home Bank before its failure, as an Association?—A. Yes.

Q. That is correct?—A. Yes.

Q. Was the Home Bank ever discussed at any of the Association's meetings?—A. I think I am quite safe in saying that I never heard it discussed.

Q. Would you have any record if it was discussed?—A. I would.

Q. Have you examined your records to see?—A. There was not any discussion at the meetings of the Home Bank's standing.

Q. You have told us of the power of the Bankers' Association respecting note circulation?—A. Note circulation accounts.

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Q. At the bank?—A. Yes.

Q. Where do you get that power? What subsection of section 124 gives you the power? Is it subsection one?—A. Yes.

Q. That is the only power?—A. Taken together. The Association may make by-laws for "The supervision of the making of the notes of the banks which are intended for circulation, and the delivery thereof to the banks."

Q. Under that section, have you any authority—A. Also "The inspection of the disposition made by the banks of such notes", and "The destruction of notes of the banks."

Q. Have you any authority under that section, or any other section—has the Bankers' Association any authority to ascertain whether or not the circulation of a bank is legal or illegal?—A. The Act provides that a bank may circulate notes up to its unimpaired paid-up capital. The Act further provides that the bank shall make a return to the Government of its unimpaired paid-up capital every month. That fixes, so far as the Association is concerned, what is the unimpaired paid-up capital of a bank, and they have no power to go behind it.

Q. Would you answer my question; the Bankers' Association has no authority to ascertain whether the circulation of a bank is legal or illegal?—A. I say it has no authority to determine whether the capital of a bank is impaired or not.

Q. You have been in the Department of Finance for ten years; who is the party in the Department charged with the particular duty of seeing that the banks keep within the legal limits, so far as note circulation is concerned?—A. A return must be made by the bank to the Department of its circulation every month.

Q. Who is the officer in the Department who is charged with the function of seeing that the banks keep within their legal limits?—A. Do you mean, is there anybody charged with the legal obligation to determine whether a bank's capital is impaired or unimpaired?

Q. Yes.—A. There is no provision in the statute, so far as I see.

Q. Was there any official in the Finance Department when you were there?—A. I am speaking of the statutes.

Q. I am talking now of the administration of the Finance Department?—A. The Finance Department receives what are equivalent to sworn statements by the banks' officers.

Q. Now it is perfectly clear, so far as the Home Bank is concerned, that they undoubtedly exhausted their capital—A. They made false returns and are liable to the penalties—the men who are responsible—provided in the Bank Act.

Q. They may go to jail?—A. That is it.

Q. But that does not save the depositors; half of the bankers in the country in jail would not save the depositors?—A. No.

Q. The fact is that in the Finance Department, so far as your knowledge goes, no steps were taken or have been taken by anybody to see that the banks kept within the legal limits, so far as note circulation is concerned.—A. If you mean that somebody in the Finance Department should have made an assessment, examined every security of the bank and every obligation to see whether its capital was or was not impaired, there is no statutory provision for such a proceeding.

Q. Do you know now from your knowledge whether the capital of any existing bank is impaired or not?—A. I have no knowledge; so far as my knowledge goes, none is impaired.

Q. You have no knowledge in the matter at all. You are in the same position as I am in that regard?—A. I have the same opportunities as you have.

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Q. Do you know who can tell us whether or not the capital of any bank in Canada is impaired?—A. You can examine the officers of the bank, I presume.

Q. They are the only people who could tell us?—A. The auditors, I should think.

Q. Do you think it is important that there should be some control, more adequate control than exists now over those issues, in view of those circumstances?—A. There has never been, so far as our records show and my knowledge goes, any circulation by a bank differing from its published returns. No false statements of the amount of circulations outstanding have ever been made, so far as I am aware.

Q. That may be perfectly true, and yet it may be entirely illegal; the circulation may be nevertheless entirely illegal. Is that not so?—A. It may be in the case of the Home Bank that false returns may be made as to the amount of unimpaired paid-up capital.

Q. So far as you are concerned, all you do is to ascertain what the circulation is outstanding?—A. That is it.

Q. And you have no concern whether or not the capital of the bank is impaired, or whether or not the bank has to its credit anything in the Central Gold Reserve which would justify a further circulation?—A. There is a return from the Central Gold Reserve every month as to the amount the bank has there to justify its circulation.

Q. Can you tell us how much is deposited in the Central Gold Reserve?—A. Something about \$60,000,000. I think.

Q. Is that more or less than last year about this time?—A. I cannot say offhand.

Q. You have no knowledge of whether the amount there is decreasing or increasing?—A. It is varying. I saw a comparative statement in the newspapers; I think I have it here; I do not know whether it covers that point. It states that the Central Gold Reserve at the end of April 1924 was \$65,600,000. A year ago it was \$9,000,000 less.

Q. Now, Mr. Ross, the duties of the Bankers' Association are stated in the Act of Incorporation with such provisions as we find in the Bank Act?—A. Yes.

Q. And in no other place?—A. In no other place.

Q. Have you any control over the banks in any way, shape or form?—A. The circulation is the only—

Q. That is the only control?—A. That is the only control, yes.

Q. Does the Bankers' Association exercise any control other than that—for instance, with regard to the rate of interest?—A. You mean the rate charged to borrowers?

Q. No, the rate allowed to depositors?—A. It has been the practice from before my time—I have no knowledge of how it originated—to allow 3 per cent on deposits.

Q. The Home Bank allowed more, did it not?—A. I don't know, I am sure.

Q. Did it at the outset—

The ACTING CHAIRMAN: Is that by agreement between the parties?

The WITNESS: I may say that is not universal either. There is one bank at least that allows more.

*By Mr. Shaw:*

Q. Which one is that?—A. The Weyburn Security Bank. There is no compulsion about it. Any bank may allow what it likes, and the Weyburn Security Bank exercises that privilege and allows 4 per cent.

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Q. So there is no arrangement, as far as the Bankers' Association is concerned?—A. There may have been in the past, but it is more than 20 years ago. I know that is the practice.

Q. Is there any understanding regarding the rate to be charged borrowers?—A. There is no general arrangement.

Q. Is there any specific arrangement?—A. Yes, there have been on certain classes. One small class of municipal loans charges  $5\frac{1}{2}$  per cent, I think. It applies to a very small percentage of the business of the banks.

Q. You mean they shall allow a rate of  $5\frac{1}{2}$  per cent—A. No, charge that rate.

Q. Do all the banks charge that?—A. I am not sure.

Q. Is that rule in effect now?—A. Rules are sometimes nominally in effect, but sometimes more honoured in the breach than in the observance.

Q. I could imagine many municipalities and school districts would be glad to know the rate is  $5\frac{1}{2}$  per cent?—A. Not less than  $5\frac{1}{2}$  per cent.

Q. That seems to me like a very safe rule?—A. That only applies to the smaller municipalities; there is no rule about the larger ones.

*By Mr. Good:*

Q. There is no limit to the maximum?—A. No.

*By Mr. Shaw:*

Q. Can you tell me, Mr. Ross, whether or not the Department have ever assessed any fine against any bank for exceeding their circulation?—A. I think it has.

Q. Do you make that answer from your own knowledge?—A. I have some knowledge—

Q. For instance, during the last year?—A. I think there was. I have heard there was one case last year.

Q. Do you know if the Home Bank was assessed anything?—A. No, I have never heard of the Home Bank being assessed anything.

Q. You have only heard of one case?—A. Yes, that is, in the last 10 years. I don't know, but there must have been.

*By Mr. Hughes:*

Q. Did the depositors in the Home Bank lose money because that bank had the privilege of issuing its own notes or because the capital of the bank was impaired?—A. The depositors in the Home Bank lost money because the assets of the Home Bank were not sufficient in the bank to pay the depositors.

Q. If the inspection of the Home Bank had been sufficient to prevent the bank from doing business with impaired capital, would the losses of the depositors have been greater because the bank had the privilege of issuing notes?—A. No, they would not. If there had been proper inspection I quite agree there would not have been losses.

Q. So far as you know, and I believe it is generally understood, in all the returns that the bank have made to the Government there has never been a false return in regard to the issuance of notes?—A. So far as I am aware that is quite correct; there has never been a false return to the Government in regard to notes issued.

Q. But there have been false returns made with regard to the condition of the bank?—A. With regard to its capital.

*By Mr. Irvine:*

Q. You have no more reason for knowing about its issue than Mr. Hughes? A. I think I have.

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Q. Beyond the returns they made to you? That is the impression you gave me a few minutes ago from your answer?—A. I have had a good deal of relationship with the banks more or less during the last 18 years. I do not say it in disparagement of Mr. Hughes, but perhaps I have had larger opportunities of knowing what the conditions are.

Q. You have?—A. Probably so.

*By Mr. Hughes:*

Q. Primarily the depositors of the Home Bank did not lose because the Home Bank had the privilege of issuing notes against its capital?—A. The Home Bank, of course, got consideration for all the notes it issued, and the depositors got the benefit of that.

Q. Was the privilege of issuing notes the primary cause, or any cause—I think I can go that far—of the failure of the Home Bank?—A. I don't think so. I think that is a correct statement.

Q. And if the inspection of banks is sufficient to keep the banks of Canada solvent the depositors will not lose and cannot lose because of the privilege of note-issuing?—A. I think, with those premises, your conclusion is correct.

MR. HUGHES: I think there was some confusion in the minds of the Committee that the note issue itself—

The WITNESS: Was the primary cause of the failure?

MR. HUGHES: No, was a weakness in the bank system of Canada.

The WITNESS: I do not think the privilege of note-issuing affects the solvency or insolvency of the bank.

*By Mr. Euler:*

Q. I think it is clearly established that it is possible for a bank to issue notes against capital which is really non-existent?—A. That is evident, yes.

Q. Now, in your opinion, will the proposal of the amendments as made by the Minister of Finance prevent the continuance of the practice which I have described?—A. I would think that the proposal of the Minister of Finance will go a long way toward preventing a recurrence of what has happened in the case of the Home Bank.

Q. Have you any suggestion to make that would be an improvement upon the proposal made by the Minister of Finance?—A. I have not.

*By Mr. Healy:*

Q. I understand, Mr. Ross, that your conclusion was that the issuance of notes by the Home Bank did not increase the loss of the depositors?—A. Did not increase the loss of the depositors? My reasons for that answer, Mr. Healy was—

*By the Acting Chairman:*

Q. Was that your answer—first of all?—A. Yes.

*By Mr. Healy:*

Q. I think I understand your reason—A. I would like to couple with that my reason for that statement, namely, that the Home Bank got consideration for every note it issued, and therefore, the depositors were, to that extent protected.

Q. Would get consideration?—A. Yes.

Q. I want some light on that.—A. I will illustrate that. When a man borrowed from the Home Bank and gave his note, he got, we will say, \$100 of Home Bank notes. Then the Home Bank had that man's note for \$100 and that was security for the depositors to that extent.

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Q. You mean to conclude that this bank could collect the assets of the public and give nothing for them?—A. Could collect—

Q. Yes, that is the conclusion that must be arrived at?—A. I don't quite follow you.

Q. The paper was worthless, legally?—A. If the executive of the Home Bank handed out its notes for worthless paper it was indeed a misfortune.

Q. The bank had \$2,000,000 of worthless paper it was handing out for good paper of the people?—A. We must assume they got good paper for it.

Q. It is agreed, I think, that \$2,000,000 was illegally issued by the Home Bank?—A. Yes. The officers made false returns—

Q. You do not have to admit these men were crooks and so on. I will admit all that. That does not enter into the argument, that they made false returns and all that sort of thing. I do not agree with your conclusions. When this bank failed there was \$2,000,000 of notes paid for by the depositors?—A. Paid for by the persons who got them.

Q. But it comes out of the pockets of the depositors finally?—A. Both.

Q. No, it comes out of the pockets of the depositors finally—that \$2,000,000?—A. That might have been the result.

Q. It was the result, was it not? Let us have definite conclusions, and not guesses. That was the result?—A. It might have been.

Q. Well, was it?—No, I cannot admit that. I will not admit that for all the paper issued by the Home Bank nothing was received in return. I cannot make that admission because I know it is not the fact.

Q. The amount available for the depositors was reduced by the exact sum of the circulation of the Home Bank then in existence?—A. The depositors have already got some money out of the Home Bank and a part of that no doubt came in exchange from notes that the bank handed out to the public.

Q. I see the point you are trying to make, but I do not agree with it?—A. I cannot help that, Mr. Healy.

Q. Now, there was a loss to the depositors as to the note circulation, but we do not agree on the amount. Can we go that far?—A. I do not say a loss to the depositors. I say that by statute the assets of the bank are liabilities to redeem the notes—that resulted in a loss to the depositors.

Q. That resulted in a decrease of the assets to the exact amount of the note circulation that was out the day the bank failed?—A. I am not ready to admit that, because when the bank handed out its notes it got paper in return on which the liquidator has realized.

Q. And that paper was an asset the day the bank failed?—A. Yes.

Q. And that was in the sum total of the assets?—A. Yes.

Q. And that was reduced by the exact amount of the bills in circulation?—A. Yes.

Q. That is correct, is it not?—A. Yes, the sum total of the bills in circulation is a first lien upon the assets.

Q. Absolutely; but the sum total of the assets of the Home Bank on the day of the failure was decreased by the exact amount of the circulation of the Home Bank?—A. Not "decreased." I would not put it that way. The Statute makes the notes a first lien upon the assets of the bank, and we cannot quarrel with the Statute.

Q. They were paid out of the assets?—A. Yes.

Q. I should say the assets were decreased if the amount was paid out of them—

The ACTING CHAIRMAN: May I interject a question?

[Mr. Henry T. Ross.]

*By the Acting Chairman:*

Q. Supposing the Home Bank instead of having made very bad investments had made very slow investments; they were perfectly good but were so slow that the bank had to shut its doors, and supposing the bank was not impaired at all. Under those circumstances when the creditors of the bank came to file their claims would they not have had to answer to the claim first of the frozen capital of the bank plus all the other assets of the bank?—A. Not all capital, Mr. Chairman. The depositors would not have had to answer for the frozen capital.

Q. Would they not have had that to levy against?—A. Yes, as a result.

Q. Well now, is it not a fact that there were \$2,000,000, let us say, of bank notes outstanding without any real capital to back it, does that not reduce their total resources against which they can levy for that amount?—A. I cannot admit it quite that way, Mr. Chairman. The assets of the bank were increased by what the bank got in exchange for the \$2,000,000 of notes it handed out, so it is not correct to say that the assets of the bank were reduced, in the sense you put it, by the \$2,000,000 of capital. The assets were supplemented by the proceeds from the \$2,000,000 capital handed out.

*By Mr. Healy:*

Q. The \$2,000,000 was really there when the bank was started—it was real?—A. I assume so.

Q. And that \$2,000,000 of real money— —A. Was lost.

Q. And the \$2,000,000 of worthless paper was exchanged for good securities belonging to the people?—A. Yes.

Q. So that having lost the real money and gathered in the people's securities— —A. No, not the people's securities; they were the bank's.

Q. They were the bank's when they exchanged this worthless paper for them?—A. When they got consideration for it there was that much more in the assets of the bank.

Q. Anyway, it had already been lost and it was not replaced, so there was not that much more. The real money at the back of the bills was lost and the real securities were exchanged for paper which had become worthless?—A. The holders of these bills gave consideration for them.

Q. I understand that, but the point you make I do not think is sound because the capital was there representing the paper, and was lost?—A. I did not say the capital was lost.

Q. Had \$2,000,000 of Dominion notes been in circulation by the Home Bank instead of \$2,000,000 of the Home Bank notes, there would not have been this loss?—A. No, it would not have been lost.

*By Mr. Marler:*

Q. Mr. Healy, in his examination, Mr. Ross, was considering a point that the depositors lost substantially \$2,000,000 by reason of the circulation of the Home Bank having reached that amount?

Mr. IRVINE: That is clear.

Mr. MARLER: That is not as clear as you think it is.

*By Mr. Marler:*

Q. And Mr. Healy endeavoured to prove—or make you commit yourself, that \$2,000,000 was improperly used. Now my question is this.—A. I did not say "improperly used." I said that insofar as the Home Bank officers are concerned they made an improper issue. So far as the other banks are concerned, the issue was regular.

[Mr. Henry T. Ross.]



## APPENDIX No. 1

Q. As regards the figures: You use them simply as tentative figures?—  
A. That is all.

Q. Nothing more and nothing less? You do not for a moment commit yourself to say that \$2,000,000 of note circulation was improperly put into existence?—A. No.

Q. You simply use that figure in comparison as to how the capital of the bank was impaired?—A. Quite so.

Q. And your meaning is that there was a certain circulation put into existence to the extent that the capital of the bank was impaired?—A. Yes.

Q. And the \$2,000,000 was simply a figure for the sake of argument?—  
A. And the consideration the bank got for the \$2,000,000 was among the assets of the bank.

Q. Now, let us assume that the \$2,000,000 was issued as it was issued, and \$2,000,000 of the bank's circulation was then acquired by the bank and put into circulation with the public?—A. Yes.

Q. The bank in putting that circulation into existence must have put it out for a certain purpose?—A. A certain consideration.

Q. In other words, for every single dollar of that circulation something was acquired on behalf of the bank?—A. Yes.

Q. An asset was acquired for the bank?—A. Correct.

Q. Therefore, if a certain point, all these assets were good—all those assets had been good—they would have offset that circulation?—A. They would.

Q. And there would have been no possible loss to the depositors at all?—  
A. No possible loss at all.

Q. Now, in the course of this examination—

Mr. KELLNER: I am rising to a point of order. I submit this is out of order. We have witnesses here whom we are supposed to question for information. Members of the Committee come here and take exception to some answers that are given, and then try to disprove the point by asking questions of the witness. That is carrying on an argument between members through the witness.

Mr. MARLER: There is no point of order there. However, I am willing to accept the ruling of the Chairman.

The ACTING CHAIRMAN: I think there is a tendency on the part of these questioners to endeavour to prove their particular—I will not say foibles—but particular points of view out of the mouths of the witnesses. Mr. Marler has not transgressed any further than some of the others, so I cannot rule him out of order. I would suggest, however, that we endeavour to get the view points of the witnesses rather than to confirm our own.

Mr. MARLER: What Mr. Healy was attempting to do was to tie Mr. Ross down to a certain amount. That evidence is on record, and I think is not correct.

The WITNESS: I have already made the point with Mr. Healy that for every dollar of circulation that the Home Bank handed out, and which is now a charge against the assets of the bank, the Home Bank received consideration.

*By Mr. Marler:*

Q. That is what I wanted to make clear to the Committee, that for every dollar's worth of notes put into circulation by the Home Bank, there was a substantial asset acquired?—A. Yes.

Q. I want to make this point clear, and I would ask you to give your answer "Yes" or "No," if you can answer as briefly as that; it is not a question of circulation at all which led to the failure of the Home Bank?—A. It was not.

Q. Your answer is "No"?—A. Yes.

[Mr. Henry T. Ross.]

Q. Does it occur to you to this extent that the fact of the bank having a circulation is an actual asset to the depositors and not a loss, for this reason, that where there is a gain made in circulation there is a profit accruing to the bank, and that is an asset behind the depositors?—A. It is an advantage to the depositors.

Q. In other words, circulation is an advantage to the depositors?—A. Yes.

Mr. IRVINE: To the extent of \$2,000,000?

Mr. MARLER: Not at all.

*By Mr. Marler:*

Q. In other words, a bank having this privilege as regards circulation, if it is properly used, acquires a benefit, and that benefit must necessarily be passed on to the depositors—provided it is properly used? Is that right?—A. That would be the result.

Q. The Home Bank unfortunately did not use it properly, and did not acquire sufficient assets by reason of its circulation, and the assets were improper assets, and improper losses were made?—A. Quite so.

Q. This circulation was lost—was thrown away?—A. I do not know to what extent. That would be a matter for investigation. I suppose that a very substantial part of the present assets of the Home Bank was acquired through the issue of the circulation.

Q. But if reasonable and proper assets had been acquired, this is at least a reasonable supposition—A. There would not have been any losses to the depositors at all.

Q. If they had been good business assets, there would have been an actual gain to the depositors?—A. There would have been, yes.

Q. Can you see, Mr. Ross, any possible advantage, as regards the depositors, of Dominion notes being substituted for this bank's circulation?—A. No, because to get the Dominion notes would have taken the exact equivalent away from the depositors.

Q. In other words, the depositors would suffer in the event of the circulation privilege being taken away from the bank?—A. Yes.

Q. Your answer is yes?—A. Yes.

*By Mr. Healy:*

Q. I agree, Mr. Ross, with your statement, but had not the capital been lost the assets would have been \$2,000,000 greater?—A. Of course, if the Home Bank had not made losses, the assets would have been greater.

*By Mr. Irvine:*

Q. Mr. Ross, are you appearing here in an official capacity as a representative of the Bankers' Association?—A. I am appearing here because the Committee asked me to.

Q. And you are in the witness box, so to speak, this morning, because you were asked—A. Yes.

Q. But is your appearance in this Committee from time to time as an official of the Bankers' Association?—A. I am an official of the Bankers' Association, and I am here looking after the interests of the members of the Association. I cannot say that I represent the Association for every purpose, nor I cannot bind the Association by my statements, nor the members of it.

Q. Then the Bankers' Association has some decided interest in what takes place in this Committee?—A. Of course. I hope it is not denied.

Q. No. Have the Bankers' interests been very well safeguarded, so far, this year—to your satisfaction?—A. That is not a question upon which I would care to venture an opinion.



## APPENDIX No. 1

Q. Have you any assistants with you, Mr. Ross?—A. What do you mean?

Q. Are you the only gentleman in this Committee Room representing the Bankers' Association?—A. So far as I know, I am. We have employed counsel.

Q. You have counsel here?—A. We have counsel employed.

Q. Just one counsel?—A. We have two or three.

Q. Would you care to say who they are?—A. If the Chairman deems it relevant.

The ACTING-CHAIRMAN: I do not see why they should not be known. It is a perfectly reputable business to act as counsel before a Parliamentary Committee.

The WITNESS: Mr. Geoffrion is retained by the Association for the purposes of this Committee. We also have the usual Parliamentary counsel, Colonel Thompson, Mr. Daly, and Mr. Robert Laurier.

*By Mr. Irvine:*

Q. Are they very highly paid, Mr. Ross?

The ACTING-CHAIRMAN: Surely that is not relevant.

Mr. IRVINE: I do not care whether they get a million dollars a minute, what I want to get at is how they are earning their money because they have not said anything here, and if they have not said anything, I want to know what they are doing.

Hon. Mr. ROBB: They are listening.

The ACTING-CHAIRMAN: Don't press that question.

*By Mr. Irvine:*

Q. They have not made any representations to this Committee, have they?—A. The Committee denies to persons appearing before it the privilege of being represented by counsel before the Committee.

Q. Is it part of their duties as counsel for the Bankers' Association to act as whips in the case of a vote being taken in the Committee?—A. I do not think that is either fair or relevant.

Q. It is very relevant to me?—A. It may be, but I do not think it is to the Committee at large.

*By the Acting Chairman:*

Q. Do you decline to answer, Mr. Ross?—A. I say it is not relevant, Mr. Chairman.

*By Mr. Irvine:*

Q. Relevant to what?—A. To the issue before the Committee, namely whether this Committee could make recommendations to safeguard the interests of depositors. That is the question before the Committee.

Q. But have you not whipped up people to vote against the proposals—

Mr. HUGHES: Mr. Chairman, that is an improper insinuation against the members of this Committee.

Mr. IRVINE: Well, Mr. Chairman, if the witness does not wish to answer that question, I will not press it.

*By Mr. Irvine:*

Q. Would you care to say in what way these counsel are serving the Bankers' Association in this Committee? What are their specific duties?—A. I will submit that is not relevant to the question before the Committee, namely, what measures can be suggested for improving the Bank Act and safeguarding the interests of depositors.

[Mr. Henry T. Ross.]

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The ACTING CHAIRMAN: My ruling on the question would be this: The witness has been asked whether they are represented by counsel, and he tells us that they have four counsel representing them. The witness is asked—

Mr. IRVINE: What is their specific duty?

The ACTING-CHAIRMAN: What is their specific duty? He declines to answer, and I think we might leave it at that. If those gentlemen are here for a purpose which their employer declines to explain, I do not think we need press that any further.

*By Mr. Irvine:*

Q. Just one more question. You stated a few moments ago that the proposals made by the Minister of Finance would go a long way to safeguard depositors in the future. Does that mean that it does not go quite all the way?—A. We have heard testimony before this Committee to the effect that no system of inspection will absolutely prevent bank failures and possible loss to depositors. That is my reason for making a qualified statement.

Q. Would you care to say in what way, in your opinion, it will safeguard depositors to any extent?—A. I think I can be quite frank about that. If an officer with the proper qualifications undertake this duty I cannot conceive of a bank getting into the hopeless condition into which the Home Bank got. There is power in the Minister's proposals that as soon as this officer is satisfied that an institution is insolvent, he shall make a report to the Minister, and the Minister is given the power to have a curator put in charge and its further operations terminated.

*By Mr. Coote:*

Q. I have just one question. I want to refer to a question asked by Mr. Irvine regarding the counsel employed by the Bankers' Association. I would like to ask the witness whether there are any counsel here representing the people or the depositors of the banks in Canada?—A. I think so; I think there are a large number of gentlemen who are looking after the interests of the people.

Q. A second question. Do you think, Mr. Ross, they are as well paid?

Hon. MEMBERS: Oh! oh.

Witness retired.

The Committee adjourned.

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

THURSDAY, June 12, 1924.

The Select Standing Committee on Banking and Commerce met at 10 o'clock a.m., Mr. McMaster presiding.

G. D. FINLAYSON recalled.

WITNESS: Mr. Chairman, when I was here before I was asked to get some information regarding the loss of deposits through the failure of banks over the last 20 years. The question, I think, was asked by Mr. Healy. I have obtained through the Department of Finance a memorandum showing the losses to depositors through the failure of banks during the last 20 years, and I may just read it.

[Mr. Henry T. Ross.]



## EXHIBIT No. 17

[Mr. G. D. Finlayson.]

years is \$1,228,880,418. The percentage loss of average annual deposits for the last 20 years is one-twentieth of one per cent, or .05 per cent. Of course, we must realize this—and this is really the vital question—we may assume, if we like, that for the next 20 years the loss of deposits is going to be the same as it was during the last 20 years; but who is going to say when that loss is going to occur? Is the loss going to occur in equal amounts each year; is the total loss going to occur at the end of five years; at the end of ten years, at the end of fifteen years or at the end of twenty years?

*By Mr. Coote:*

Q. Or next year?—A. Or next year. According to the answer to that question the cost must be varied. One-twentieth of one per cent would apply on the assumption that the losses were going to be sustained in equal amounts in each year. If, however, we assume that the total loss of \$11,000,000 is going to be sustained at the end of five years, then the annual assessment would have to be \$2,012,949, or one-sixth of one per cent, instead of one-twentieth of one per cent, assuming equal distribution of losses. If we assume that the losses are going to be sustained at the end of ten years, the assessment would have to be \$907,145, or one-fourteenth of one per cent. If we assume that the losses are going to be incurred at the end of fifteen years, the assessment would be one-twenty-fifth of one per cent.

*By Mr Irvine:*

Q. Would that include the interest?—A. That is taking into account the interest. If we assume that the losses are going to occur at the end of twenty years, the annual assessment in the meantime on the annual average deposits would be one-thirty-third of one per cent. These assumptions are purely arbitrary in the absence of any proper statistical basis.

*By the Acting Chairman:*

Q. You are an insurance expert, an actuary. Suppose you had an actual loss to provide for, and you were not sure when it was going to happen, could you calculate on an actuarial basis what would be a fair insurance premium to charge?—A. No, it is not an acturial problem at all, gentlemen, because there is no law to work on. Acturial work is based on the assumption that there is some law. There is no law governing the failure of banks.

Q. Some law of average?—A. The law of average. Here you have over the last twenty years four banks that have failed. Supposing that we assume that there was going to be an equal distribution of losses during the next 20 years and you start making your assessment of say \$567,000 a year, or something of that sort, and you have a great big failure involving millions in the first year or two; where is your fund? Your fund would be negligible compared with the total amount of loss.

*By Mr. W. F. Maclean:*

Q. You could set apart a fund in the various banks and make them more or less responsible?—A. To be sure you would have to set aside right at once a fund to meet the total amount of losses that you are going to assume will be incurred in the next 20 years.

Q. And ear-mark that fund?—A. That is the only way in which you could be safe, and even then, you might be short of the money because there is no saying what the failures during the next 20 years will be.

*By Mr. Coote:*

Q. Say, one-quarter of one per cent might be taken on eighty per cent of those deposits, assuming that the deposits under \$3,000 would be in the neighbor-  
[Mr. G. D. Finlayson.]



## APPENDIX No. 1

hood of seventy-five or eighty per cent; and that could be set aside in the hands of the inspector who is to be appointed under this Act, and if they were used to cover losses they would cover them simply to the extent that the fund would cover them. A bank might fail next year, or we might not have another failure for say ten years; and the losses of depositors in this failed bank would be paid so much a year, so many cents on the dollar of his deposit through this guarantee fund?—A. That would be in the nature of a post-mortem assessment. The assessment would be made after the losses occurred, rather than before.

Q. It would be made each year. It would not be an absolute guarantee to the depositors, but whatever came into this fund would be used to cover the losses that occurred?—A. The only conclusion really I can come to is that it is not an insurance scheme, this bank deposit scheme, and I do not see how it could be worked out with any degree of satisfaction.

*By Mr. Morin:*

Q. What are the average earnings of the banks in proportion to this deposit?—A. I would not like to say. I may say that I have not scrutinized the bank returns. Probably some official of the Department of Finance would be able to give you that information.

Mr. MORIN: The tax must be based on the earnings of the bank.

*By Mr. McQuarrie:*

Q. You are dealing with savings deposits or is it with the total deposits of the banks?—A. I have been dealing with the total deposits over 20 years.

*By the Acting Chairman:*

Q. Mr. Williams when he was before us stated that on the experience of the last twenty or thirty years—I forget which—\$25 would insure one million dollars. Does that work out with your figures?—A. I cannot find any basis in the figures we have here for such a statement as that. It may apply in the United States banks—I do not know, but it certainly does not apply here.

Q. You calculated down to a percentage. Would that percentage be anything in the neighborhood of \$25 on one million dollars.—A. One-twentieth of one per cent is my computation. One-tenth of one per cent on one million dollars would be \$1,000 and one-twentieth of one per cent would be \$500 which is twenty times the amount stated by Mr. Williams.

Mr. SHAW: Mr. Williams' figures were based on the last seven years and during the time when the United States Government had a thorough inspection system in operation.

WITNESS: The other point on which I was asked to give information was the system of guaranteeing bank deposits in the United States. I have here a memorandum which I think I may read to the Committee to save time. (Reads).

## EXHIBIT No. 18

## Memorandum

*Re*

## Guarantee of Bank Deposits

"The guaranteeing of bank deposits is practically unknown in Canada.

"It is frequently stated that this practice is common in the United States and the impression is given that it applies to the deposits of individual and private depositors. It should therefore be clearly pointed out that—

[Mr. G. D. Finlayson.]

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"1. In the United States the guaranteeing of private depositors accounts is practically unknown.

"2. The only accounts which are guaranteed are those of public bodies which are required by law or by-laws of the bodies themselves to have such deposits insured. These deposits are funds of the State Governments, Municipalities, School Boards, some Fraternal Orders and other similar bodies.

"The first enquiry made by a guarantee company asked to guarantee a certain account is whether the law requires the account to be guaranteed. If it does, the proposition is considered, if not, it is rejected.

"The rate of premium is one-half of one per cent of the average balance or \$5 per \$1,000 and is uniform for all banks, clients and districts.

"The application for the bond is always made by the bank.

"The volume of this business in the United States is quite large and has for a period of years been fairly profitable. In recent years, however, the experience has been unfavourable, particularly in the agricultural districts. The business is carried mainly by the ordinary guarantee insurance companies.

"Lloyds has little if any of this business in the United States. The guaranteeing of bank deposits in Great Britain is practically unknown."

That seems to represent the experience of the insurance companies guaranteeing deposits in the United States.

The ACTING CHAIRMAN: Now, gentlemen, shall we proceed to the examination of witnesses? Are there any further questions to be asked of Mr. Finlayson before we proceed with other witnesses?

*By Mr. Ward:*

Q. I think you said, Mr. Finlayson, that some nine banks have failed in the last 20 years, or thereabouts?—A. 13; about nine have paid in full, and four have incurred losses.

Q. Of the four whose depositors were not reimbursed in full, I think you said that the loss had been somewhere in the neighbourhood of \$11,000,000?—A. \$11,000,000, yes.

Q. Is it fair for us to assume, then, that these other banks that were absorbed by stronger banks, that the losses would compare favourably with the losses of the banks that were not taken over? Have I made that clear?

The ACTING CHAIRMAN: Not to me.

The WITNESS: I do not quite get the point.

*By Mr. Ward:*

Q. What I wish to ask is this, that if the four banks which went into liquidation had a loss, the depositors sustained a loss of \$11,000,000, is it fair for us to assume that that would be a fair comparison of loss of the other banks, though they were absorbed by stronger banks had they been allowed to fail? I think this is a very important question, and one that seems to have somewhat slipped the attention of the examination before this committee. If these other nine banks had losses similar to the four which went into liquidation, I should say it is a serious matter.

The ACTING CHAIRMAN: Mr. Ward, I am just going to rule at the beginning that we are not going to have any questions which are really arguments; we will just ask the witness questions and get his ideas.

[Mr. G. D. Finlayson.]



## APPENDIX No. 1

The WITNESS: I would not be able to answer the question; I have no means of knowing what the loss would have been.

The ACTING CHAIRMAN: Any further questions of Mr. Finlayson, gentlemen? If not, we thank you very much, sir. Now, the next witness is Mr. Saunders.

J. C. SAUNDERS, Deputy Minister of Finance called and examined.

The ACTING CHAIRMAN: Is it the desire of the committee to examine Mr. Saunders about the Finance Act? If so, Mr. Saunders tells me he has prepared a comprehensive memorandum with which he would like to introduce his evidence before the committee. If it is the desire of the committee I shall ask Mr. Saunders to read this memorandum to us. Viva voice examination is a great deal more interesting, but I think perhaps if the memorandum is not too long, we might start with it.

The WITNESS: (Reads)

*Advances to Banks Under Finance Act 1923*

Under authority of section 2 of the 1923 supplement to the Finance Act of 1914, the Minister of Finance may make advances by the issue of Dominion notes upon the pledge of the following securities—(repayments under authority of section 7 to be made in Dominion notes to the Minister or to an Assistant Receiver General):

(a) treasury bills, bonds, debentures or stocks of the Dominion of Canada, United Kingdom, any province of Canada, and of any British possession;

(b) public securities of the Government of the United States;

(c) Canadian municipal securities;

(d) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity;

(e) promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes.

Section 6 provides that advances shall be for a period not exceeding one year and interest thereon shall be payable at such rate as may from time to time be fixed by the Treasury Board.

The rate of interest as at present fixed by the Treasury Board is five per cent per annum.

Section 3 of the Act provides that such securities shall be deposited with the Minister or with an Assistant Receiver General, and, further, that the Minister may request the trustees of the Central Gold Reserves to make a valuation of and recommendation as to the amount which, in their judgment, may properly be advanced on any securities submitted.

Section 4 provides that the Minister may permit bills of lading or other documents of title, covering grain or other commodity while in transit to go forward under the control of the bank to the point at which delivery is made and payment therefor is received, the bank to be a trustee for the Minister, to the extent of the advances, of the proceeds received for such grain or commodity.

Section 5 provides that all promissory notes or bills of exchange when pledged shall have a maturity exclusive of days of grace, not later than six months from the time at which they are pledged.

Section 9 provides that these advances shall be deemed to be an amount due by the bank to the Government and shall be a second charge upon the assets of the bank.

[Mr. J. C. Saunders.]

Section 10 provides that the bank shall satisfy the trustees of the Central Gold Reserves before an advance is made that any promissory notes or bills of exchange issued for agricultural, industrial or commercial purposes, offered in pledge, have in fact been issued or drawn or the proceeds have been used or are to be used in the first instance, in producing, purchasing, carrying or marketing grain or goods, wares and merchandise within the meaning of these words in the Bank Act.

Section 11 provides that no advances shall be made against the pledge of promissory notes or bills of exchange issued for the purpose of carrying or trading in stocks, bonds, or other securities, or to be employed on capital expenditures of any kind, and the Minister may direct the trustees to make inquiry and report as to whether any notes or bills offered in pledge fall within the prohibition of this section.

Advances under the Finance Act are authorized by the Treasury Board on the formal application of the bank, enumerating the securities to be tendered as collateral, such application being in the form prescribed by the Treasury Board. (See EXHIBIT No. 19 at page cxxxii.)

The ACTING CHAIRMAN: Who are the members of the Treasury Board?

The WITNESS: The Minister of Finance is the Chairman; the Minister of Railways and Canals, the Minister of Customs, the Minister of the Interior, and the Postmaster General.

*By Mr. Shaw:*

Q. The Act provides that it shall be the Minister of Finance and five members of His Majesty's Privy Council, with the Deputy Minister of Finance as the Secretary, *ex officio*?—A. Yes.

As all advances under the Finance Act become due on May 1st of each year, it has grown to be the practice for the banks to submit to the Treasury Board, just prior to that date, their applications for the authorization of advances to cover anticipated or possible requirements during the whole of the ensuing year, including the renewal of outstanding amounts. This practice, of course, does not in any way preclude the bank from making other applications in the course of the year which changing conditions may require.

Within the scope of the approval or authorization given by the Treasury Board, and upon deposit and pledge of the approved securities, the Department makes loans from time to time upon the written or telegraphic request of the bank. Advances may be made at Ottawa, or at the office of any Assistant Receiver General, at the bank's option, and repayments are due at the offices at which the advances were made. In practice, most of the advances are made either at Montreal, Toronto or Winnipeg. Where securities are kept on deposit with the Department (as many banks do, whether there are outstanding advances or not), advances are obtainable upon notice of an hour or two, although, if possible, the banks are asked to give twelve hours' notice of their requirements.

The form of pledge agreement to be deposited with the collateral is prescribed by the Treasury Board (see Exhibit 20 printed at end of this evidence). On the form are printed regulations, terms and conditions applicable to all advances under the Finance Act, covering such matters as rate and payment of interest, repayments, release of securities and procedure on default.

Under the provisions of section 12 of the Act a Treasury Board Minute of May 30th, 1923, authorized the margins by which the different



## APPENDIX No. 1

classes of securities deposited should exceed in value the amount of the loans. The schedule is as follows:

Against Dominion of Canada Treasury Bills and Bonds—advances to be made dollar for dollar of the par value;

Against bonds guaranteed as to principal and interest by the Government of the Dominion of Canada—a margin of 10 per cent on the market value;

Against British Government Treasury Bills and Bonds—a margin of 10 per cent on the market value;

Against short-term securities, not exceeding one year, of the Governments of the Provinces of Canada—a margin of 10 per cent on the market value;

Against other securities of the Provinces of Canada and securities carrying the guarantee, as to principal and interest, of the provinces of Canada—margin of 15 per cent on the market value;

Against bonds of Canadian municipalities—a margin of 20 per cent on the market value;

Against assignments secured by documents—covering grain, flour, cereals and feed—a margin of 25 per cent;

*By the Acting Chairman:*

Q. Against their market value?—A. Assignments would have no market value. 25 per cent of the amount loaned, the amount involved.

*By Mr. Shaw:*

Q. That is, the amount loaned by the banks?—A. Yes. There would be no listed market rate on that.

*By the Acting Chairman:*

Q. Suppose the bank had advanced \$1,000 on a bill of lading of 1,000 bushels of wheat?—A. Yes.

Q. And at the time of the advance by the bank wheat was worth say \$1.10 a bushel. Then, under your Act, you would advance up to \$750 on that bill of lading?—A. Yes.

Q. That would give you a margin of more than 25 per cent as of the value of the wheat at the time when the original advance was made by the bank. If wheat went down, your margin might be cut down too.—A. But, Mr. Chairman, the bank takes that risk.

Q. What I wanted to make clear was this; it is 25 per cent below what the bank has advanced against the security, not against the value of the security upon which the bank has advanced?—A. Yes.

*By Mr. Shaw:*

Q. The bank may have advanced altogether too much, in which case the Finance Department will have a 25 per cent margin to work on. It has no relationship to the value of the goods at all?—A. No.

Against commercial paper endorsed by the bank to the order of the Minister of Finance—a margin of 25 to 35 per cent as the Minister may determine.

In tendering securities, the bank usually submits its own valuations thereof which are checked by the departmental officials against current market quotations and such other information as is at its disposal, including the valuations placed upon insurance, trust and loan companies' investments by the Superintendent of Insurance.

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The following is a tabulation showing the peak of the loans under the Finance Act in each of the years during its operations:—

Month	Maximum amount of advances in each year
November, 1914.. . . . .	\$ 12,767,500 00
January, 1915.. . . . .	10,720,000 00
February, 1916.. . . . .	2,777,135 00
October, 1917.. . . . .	52,170,000 00
November, 1918.. . . . .	116,500,000 00
November, 1919.. . . . .	112,957,000 00
November, 1920.. . . . .	123,689,025 00
January, 1921.. . . . .	108,707,960 75
January, 1922.. . . . .	60,619,769 74
October, 1923.. . . . .	40,020,000 00

At the present date, the total advances outstanding are \$17,000,000, of which \$5,370,000 are against Dominion of Canada Treasury Bills, \$3,000,000 against Grain securities, and \$8,630,000 against other approved securities including Dominion, Provincial and Municipal bonds.

The following tabulation shows the total par value of the different classes of securities at present held by the Department securing loans or available for that purpose, the amount which may be advanced thereon under Treasury Board regulations and the amount of advances at present outstanding.

Securities	Total par value	Total amount that may be advanced thereon	Total advances outstanding
Dom. of Can. Treas. Bills.. \$	40,735,000 00	\$ 40,735,000 00	\$ 5,370,000 00
Dom. of Can. Bonds.. ..	16,612,400 00	16,612,400 00	
Prov. Govt. Securities.. ..	1,840,549 15	1,572,423 98	
Can. Mun. securities.. ..	3,078,974 87	2,482,734 13	
British Govt. Bonds .. . .	120,000 00	113,455 00	
Dom. Guaranteed Bonds...	447,333 00	387,317 72	
Prov. Guaranteed Bonds...	329,399 00	280,140 00	8,630,000 00
Grain.. . . . .	3,892,000 00	3,113,600 00	3,000,000 00
	\$ 67,055,656 02	\$ 65,297,070 83	\$ 17,000,000 00

The revenue received by the Government in each year, as interest upon Finance Act loans, has been as follows:—

Year ended March 31st	Amount
1915.. . . . .	\$ 211,551 97
1916.. . . . .	62,722 49
1917.. . . . .	105,458 12
1918.. . . . .	754,792 01
1919.. . . . .	2,395,643 02
1920.. . . . .	3,322,952 78
1921.. . . . .	3,568,106 74
1922.. . . . .	2,392,598 57
1923.. . . . .	1,249,677 90
1924.. . . . .	775,170 38
	\$ 14,838,673 98



*By Mr. Shaw:*

Q. Any United States bonds in the list?—A. No. Provision is made for United States bonds, but none has been tendered.

*By Mr. Irvine:*

Q. Can you tell us the total amount that has been advanced on municipal bonds?—A. Yes. We hold Canadian municipal securities in our hands of \$3,078,000 and the amount that could be advanced is \$2,482,000. At the present time there is nothing outstanding against them.

*By Mr. Maclean:*

Q. Does that go into the consolidated revenue, any profits from that?—A. Yes.

*By Mr. Spencer:*

Q. How long has this been in operation?—A. That is from 1914 up to the 31st of March last.

*By Mr. Hodgins:*

Q. How do you hold these municipal securities, when there is nothing advanced on them?—A. They have been submitted to the Board, and they were allowed to stand in our hands so the banks could realize on them at once, to save the time of sending them on when they needed money.

The CHAIRMAN: May I make a suggestion? In questioning Mr. Saunders, let us proceed in an orderly way, and have each member conclude his examination before another breaks in.

*By Mr. Shaw:*

Q. Mr. Saunders, you have been the Deputy Minister of Finance for how long?—A. Since 1920.

Q. And how long have you been in the Department of Finance?—A. Since 1887

Q. Then I take it that this system has revolutionized itself during your experience with the Finance Department?—A. Yes, Mr. Shaw. The Finance Department to-day, compared with what it was even in pre-war days, is entirely different.

Q. That is, the Finance Act came in in 1914?—A. Yes.

Q. Then you have also partly under your jurisdiction the Mint, which came in in 1908?—A. Yes.

Q. And various supervisions in connection with financing and all the other matters that come under your jurisdiction, even within the last ten or fifteen years have been completely changed?—A. The various changes in banking legislation, do you mean?

Q. Yes.—A. Yes. The Bank Act was changed, too.

Q. You have told us about the composition of the Treasury Board, and the arrangements for operation under the Finance Act. I think you have indicated the mechanism fairly thoroughly. Who fixes what members of the Cabinet, what members of the King's Privy Council for Canada shall be the members of the Treasury Board?—A. The Governor-in-Council.

Q. And I suppose, owing to the list you have given, that they are chosen probably with special reference to their knowledge of financial matters; is that the theory or the principle?—A. I just take them as they come.

Q. We all sympathize with you. How often do they meet?—A. In normal times they try to meet once a week, but Parliament rather upsets that.

[Mr. J. C. Saunders.]

Q. How many constitutes a quorum?—A. Three.

Q. So you ordinarily have a meeting once a week, with at least three present?—A. That is what we try to do. There is no special time set.

Q. Do these gentlemen on the Treasury Board change from time to time? For instance, would it be impossible for Mr. Motherwell, for example, to take the place of Mr. Stewart, or one of the other members, or are there frequent changes?—A. No, there are not frequent changes, except supposing a Minister goes out who happens to be a member of the Board, and he has to be replaced.

Q. For example, Mr. Robb went off to Australia. I suppose during his absence somebody else would be appointed.—A. No, we would have our quorum of three.

Q. Do I understand correctly that only the banks can take advantage of this Finance Act?—A. Only the banks.

Q. Suppose, for example, that a province came here with gilt-edged bonds—and lots of provinces have them—

The CHAIRMAN: Quebec, for instance.

*By Mr. Shaw:*

Q. The province of Quebec, for example, and they came to you as secretary of the Board and said, "Here is \$1,000,000 worth of bonds; we want \$10,000 in notes." What would you do?—A. I would tell them they must get the Finance Act amended.

Q. Or shift them off to the banks?—A. Yes, they could do it through a bank.

Q. So the fact is that this Finance Act is something which operates only at the instance of the banks?—A. Yes, at the present time.

Q. Nobody else in Canada, no matter what their security, has any right to go directly to that Board and ask for accomodation?—A. No.

The CHAIRMAN: That is getting near the line of argument.

Mr. SHAW: No, it is a fact. I refuse to even enter the realm of argument in the matter.

Mr. MARLER: I wonder if it is possible to ask the gentleman what advantage it is for anybody else coming under the Finance Act?

Mr. SHAW: That would be a matter of argument.

The CHAIRMAN: You might ask the witness' opinion on that; I do not think that would be argument.

Mr. SHAW: That might be a matter of argument, and I will not touch it.

Q. Now, Mr. Saunders, you have stated that the interest rate is five per cent. Has it ever varied, to your knowledge?—A. In the early part of the war, the then Minister of Finance, in arranging for the banks to make a large loan to the Imperial Treasury for war purposes here in Canada, that is for supplies in Canada, allowed the banks the privilege of rediscounting, you might say, with the promise that they could have it for three and a half per cent, but that was just a temporary thing, because the banks were rather afraid of it.

Q. That was just one special instance?—A. Yes.

Q. So it would be correct to say that during the operation of this Act, with the single exception you have mentioned, the interest rate has been fixed at five per cent?—A. Five per cent.

Q. There has been no variation?—A. No variation.

Q. Might I ask you this? Is there any expert or advisor to the Treasury Board, outside of yourself, at these meetings?—A. I hope not. I am supposed to be the advisor.

[Mr. J. C. Saunders.]



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Q. Do you have a special knowledge of the problems, for example, of inflation and deflation?—A. I do not consider myself an expert, but I naturally have a little experience and knowledge of it.

Q. Can you tell me whether or not the interest rate might be used as a means of assisting in the process of deflation, or as a weapon which might be used against inflation?—A. I do not quite get that.

Q. Do you recognize the interest rate, that is the raising and the lowering of the interest rate, as an effective instrument not perhaps thorough, but an effective instrument to cause deflation or to assist inflation?—A. I do not think so.

Q. You think the interest rate would have no relation to that matter at all?—A. I do not think so.

Q. And consequently it would be wholly unnecessary to have either an increase or decrease in the interest rate for that purpose under the provisions of the War Finance Act?—A. We have never looked at it in that way, nor considered it in that way.

Q. Then it would be fair to say that as an instrument for the purpose I have mentioned, the Treasury Board does not consider it, and has never considered it?—A. Not in that light, no. It has always been considered as meeting the needs of the banks in their commercial business, and work outside in the business world.

Q. Is it profitable, Mr. Saunders, for the banks to take advantage of the provisions of the Finance Act?—A. It must be, or they would not work it.

Q. And do you know the ordinary procedure of the banks in connection with the operation of the Act? Probably I had better put that this way. Is this what ordinarily happens, that the banks come to you with their securities, take advantage of the provisions of this Act, get the Dominion notes at five per cent, and then take these Dominion notes to the Central Gold Reserves and thereby get the right to increase their own circulation?—A. Yes, they can, but as I see it that is not the usual reason for getting it. It would not pay them; the banks are so anxious to have these repayments made and escape the five per cent interest that I do not think they would pay five per cent just for the sake of getting further circulation, unless they could make that work in business.

Q. Do they not make that work in business?—A. I should think they do.

Q. And they would have little difficulty in getting their circulation out at a rate exceeding five per cent, would they not?—A. Well, of course we do not follow the money out, to see what rate of interest they get.

Q. I was wondering if you knew what it seems to me must be a perfectly clear practice, for them to go with the Dominion notes secured under the War Finance Act, and take them right over to the Central Gold Reserves and get the right to increase their circulation by depositing them there.—A. As a matter of fact the banks use these notes mostly to meet clearings. The circulation is an intricate business for the banks to keep track of, they have so many branches flung all over the country, and they have several expert men watching the circulation. When they think they will be met by demands at the Clearing House beyond their resources to pay in Dominion notes, they ask for these advances, they may put them in and when they are not needed they will take them out again, because they do not want to pay the interest. Or they may leave it in.

Q. Would you suggest that the main purpose that the banks have in mind in applying under this Finance Act is for the purpose of getting large legals in order that they may meet their Clearing House returns?—A. That is my opinion.

[Mr. J. C. Saunders.]

Q. That would not be a matter that would necessarily come within your special knowledge?—A. No.

Q. You have spoken about the circulation of the banks. The bank circulation, as you know, is fixed by the Bank Act which includes and is limited to amount of the unimpaired capital, and the amount to the credit in the Central Gold Reserve, subject to certain changes during certain seasons of the year, certain additional provisions?—A. Yes.

Q. What arrangement do you have to see that the banks keep within the legal limits of their circulation?—A. Well, Mr. Shaw, if you look into the Bank Act you will see that we get about fourteen returns from the banks, and among those returns is the circulation. Then we get a special monthly return; that return is scrutinized by a special officer in the Department under my own direction, and the circulation is checked up so as to grasp the situation and see that there is no over-circulation. Of course, if there is over-circulation there is a penalty under the Act.

Q. I suppose that that penalty has been imposed on some occasions?—A. Yes. If you will allow me, I may say I never knew any over-circulation that showed an attempt to over-circulate. It has been owing to some little clerical mistake or some unlooked for event. Nevertheless, we go after them.

Q. Have you read the evidence in connection with the Home Bank?—A. Not too closely.

Q. Are you aware of the fact that the capital of that bank was impaired to a very large extent as far back as 1916?—A. There was nothing to show that that was the case in the returns to the Finance Department.

Q. They make a return to you?—A. Oh yes.

Q. I suppose, Mr. Saunders, indicating the paid-up capital, but you would know that without their telling you?—A. Yes.

Q. They would indicate in this return, from month to month, the amount of circulation outstanding?—A. Yes.

Q. And as long as the circulation outstanding was not in excess of the amount of paid-up capital, you would be satisfied?—A. Surely.

Q. The Bank Act says that it must not exceed the unimpaired capital?—A. Well, the unimpaired capital is what the bank returns show as so and so.

Q. Do they make a return as to their unimpaired capital, or as to their paid-up capital?—A. No, its paid-up capital. If we looked at it in that light, we would have to go into every bank every month and see whether they were solvent or not.

Q. Do you recognize any difference between paid-up capital and unimpaired capital?—A. No,—well, hold on,—paid-up capital is the amount that has been paid into the bank. If the bank has impaired its capital by any loans, the paid-up capital is all they show us, and I would not know whether they had impaired it or not unless they said so.

Q. But the fact is, so far as the Department is concerned, that they have no means of knowing whether the capital of a bank is at any time impaired?—A. We have through the returns. For instance, we examine the assets and liabilities, and if the returns show that the bank is in a sound position, its capital cannot be impaired.

Q. Has any bank ever forwarded a statement to the Department of Finance indicating that it is in an unsound financial condition during your experience in the Department?—A. No, I do not think there has been.

Q. You would not expect them to, would you?—A. I would think they were honest.

The ACTING CHAIRMAN: He would think they were honest.

[Mr. J. C. Saunders.]



## APPENDIX No. 1

*By Mr. Shaw:*

Q. Did the Home Bank officials, for instance, ever forward to you a statement showing that as far back as 1916 their capital was impaired?—A. Indeed they did not. There are lots of things they did not do.

Q. What about the Merchants Bank?—A. The Merchants Bank?

Q. Their statements were not honest either, were they?—A. Well, to a certain extent, they did not show the true position of the bank, but that was their lookout. If they made wrong certificates and wrong declarations, we could not get behind that under the old Bank Act.

Q. I am not casting any reflection; I appreciate that under your existing machinery you had to take the returns that the banks may send in, and if these banks wilfully or accidentally make false statements, you have no means of checking them up, necessarily?—A. No, but I may say that this proposal of the Minister to have an inspector will round that part off.

*By Mr. W. F. Maclean:*

Q. Who will—

The ACTING CHAIRMAN: Do not be interrupted.

WITNESS: Because one of his first duties would be to verify the figures sent to the Department in the returns.

*By Mr. Shaw:*

Q. Quite right, I agree with you. All I want to get from you is this: I am not trying to blame anybody—I say that so far as the condition of the banks at the present time is concerned, the Department of Finance, the Minister of Finance, the Deputy-Minister of Finance, and all the officials of the Department must rely upon the returns which the banks send in?—A. That is what Parliament tells us to do in the Act. I may say, Mr. Shaw, that our financial men are such an outstanding class that we would not suspect them of making any mis-statements. When mis-statements have been made, it has only been in certain cases due to knavery or crookedness, and you cannot judge the other banks by that.

Q. I am not trying to, but my memory runs back fifteen or twenty years and I can recall that in the Farmers' Bank, the Ontario Bank, the Merchants Bank and the Home Bank false returns were made to the Department of Finance, if my memory is correct?—A. How many banks did you say?

Mr. MARLER: I do not think that that is a statement which should go on the record.

The ACTING CHAIRMAN: They were not all thought guilty.

Mr. SHAW: The false returns were admitted, but the question was did they wilfully make those false returns?

The ACTING CHAIRMAN: To say that a bank makes a false return connotes, I think, that it is wilfully false.

Mr. SHAW: No, false may mean untrue; it may be wilfully or not wilfully made.

WITNESS: False returns? The return made in the case of the Merchants Bank, for instance, their trouble was that they did not recognize the depreciation in some of their big loans, and they hoped eventually to get them, so they kept them on the return showing their face value.

Q. Please do not misunderstand me. I am only talking of false statements innocently made to the Department. That is the lowest class of case we can imagine?—A. I would not say designedly false.

Q. I say in regard to those statements that the Department have no means of checking up statements which are false without any intentional desire to make them false?—A. No, if they put in their loans, their current loans at a certain value, we would not know the difference.

Q. Would it then be correct to say that so far as those returns of banks to the Finance Department, as it exists to-day, are concerned, the Finance Department stands in the position of an adding machine?—A. I would not admit that at all. All returns that are given to the Finance Department to-day—the Finance Department can grip anything unless there is roguery or knavery designedly on the part of a bank to mislead the Department by making false returns.

Q. You think then that there is a complete system of checking up these returns and of ascertaining their falsity unless there is some exceptional idea of roguery or knavery involved? Is that it?—A. Yes.

Q. Tell me what you do to check up the returns sent by a bank monthly, for example?—A. I have here a memorandum of the returns sent to us showing just what we do. It is a little lengthy—

Q. Could you leave that with us?—A. It is not in a form perhaps to be intelligible.

The ACTING CHAIRMAN: If it is not in a form to convey an intelligent idea, you had better read it or make some reference to it.

Mr. SHAW: I suggest that he put it in the form of a statement like the first statement he made, and it will go on the minutes.

WITNESS: I could interpret it, but perhaps it is not in a readable form.

*By Mr. Shaw:*

Q. Before you go on to that in detail, I want to ask you one or two other questions, and then I shall be through. With regard to this question of circulation, having in mind that the circulation of a bank depends on the unimpaired capital, there is no doubt from what you say that the Department have no means of checking up the question as to whether there has been an impairment of its capital or not?—A. No, we have no bank inspection.

Q. And as a result, a bank even with its capital impaired, may go on issuing worthless or illegal notes to the public?—A. They are not worthless, they are as good as any note of any other bank.

But so far as being legal is concerned—A. That does not lessen their commercial value.

Q. Put it this way—I want to make this point clear—can a bank illegally issue its notes by reason of impairment of its capital, and the Finance Department not be any the wiser?—A. A bank cannot do that without several of their high officials being in collusion. If that were done, it would be a deliberate piece of knavery on the part of the bank officials.

Q. Would you know about it?—A. No, I would not know about it.

Q. The Finance Department would not know? Now, I want to ask you about the Mint. The Mint is under your jurisdiction to some extent, is it not?—A. No, the Mint belongs to the Imperial Government.

Q. But there is an arrangement?—A. Yes, we pay the running expenses.

Q. You advance I think \$200,000 a year?—A. Yes.

Q. And all the profits made go to the Canadian Government?—A. Yes.

Q. I understand that one of the chief sources of profits arises from the collection of American coinage, silver and copper coinage, and replacing it with Canadian coinage, is that right?—A. We do not collect American coinage and replace it with Canadian.



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Q. Tell me whether it is not a fact that some years ago an arrangement was made with the banks by which they collected this American coinage and we paid a commission; the American coinage was shipped across the boundary, where it belonged, and it was replaced by Canadian coinage minted at this Royal Mint?—A. That was so, but it was not necessarily replaced by the Mint. The banks shipping, if they depleted their silver holdings, they would have to get Canadian silver in the usual way.

Q. And they would not have to pay for it?—A. Certainly they would have to pay for it.

Q. In purchasing it the Mint was enabled to make quite a bit of money?—A. In purchasing what?

Q. In purchasing the necessary silver coinage to replace?—A. I see your point. We make a certain amount on our silver coins—

Q. I understand about 100 per cent?—A. Not now, about 50 per cent.

Q. That is quite a lot?—A. Silver was up, you know; it depends on the price of silver.

Q. There is a big profit to be made in that exchange of Canadian coinage for the American coinage, is there not? Or have you investigated the matter particularly?—A. I do not see where the American coinage comes in at all. Our silver circulation goes out as the banks require it for commercial purposes. When they get American silver in and ship it out, that is their business. I may say that the banks are filled up with silver now and have more than they really require.

Q. Has this arrangement with the banks for the deportation of American coinage been eliminated?—A. Yes.

Q. So that the banks have no interest now, from a commercial point of view, in deporting the American coinage?—A. When the exchange is against us, it helps them a bit if there is enough difference to pay for the shipping.

Q. But it has to be against us very strongly before they would be interested in shipping out American coinage?—A. I do not suppose it would cost more than, say, one-quarter of one per cent anyway to send silver across the border.

Q. What I want to draw to your attention is that in past years there has been a tremendous profit made by this which accrued to the Canadian Government. Now, there is not any. What I want to suggest to you is that it is because this arrangement with the banks has been eliminated and there is a lot of American coinage in the country which should be deported?—A. No, pardon me, that is not the reason. The reason is that during the war we had to get a sufficient circulation so that the country would have it for its present needs. It is not the case that American money is here displacing Canadian money. During the war period, the Mint worked night and day sometimes turning out silver for war financial purposes and we were flooded with Canadian coinage.

Q. Do you think that there is no American coinage in circulation?—A. There is, but nothing to—

*By the Acting Chairman:*

Q. Nothing to write home about?—A. Nothing to write home about.

Mr. SHAW: I know there is a lot in Ottawa.

The ACTING CHAIRMAN: Under the Gresham law all the poorer money driven out by the better American dollar bills and American silver will disappear.

Mr. SHAW: I think you will find that the Gresham law will have to be jacked up a bit before it affects American coinage.

[Mr. J. C. Saunders.]

*By Mr. Shaw:*

Q. Then, during the period when our exchange was at its lowest as compared with the American, there was little of this money shipped over, because it was too much bother; but the Department of Finance paid the banks a very small commission in the aggregate—it did not amount to much—but the banks undertook to gather it and ship it across. I am told that there is from \$3,000,000 to \$5,000,000 of American coinage in the country now. I do not know whether that is true or not?—A. I do not believe it. It is dangerous to go on what we are told. I do not believe there is any such thing.

The ACTING CHAIRMAN: During the war, I noticed, when the exchange went heavily against us, we did not seem to have nearly as much American silver or as many dollar bills as we had been accustomed to before. That is my experience.

*By Mr. Shaw:*

Q. I do not care whether American currency is at a premium or not; the fact is, as Mr. Saunders says, that we make 50 per cent on our own money—A. We cannot make that to-day.

Mr. SHAW: I am not sure of that.

*By the Acting Chairman:*

Q. The total value of silver is even to-day considerably higher than its intrinsic value, is it not?—A. Yes.

*By Mr. W. F. Maclean:*

Q. Would you tell us if there has been any loss up to date in connection with the rediscounting by the Finance Department?—A. Not one cent.

Q. You mentioned the Central Gold Reserve in connection with rediscounting; have you ever seen that organization?—A. The Central Gold Reserve?

Q. Yes.—A. By law we have to inspect it.

Q. It is in existence?—A. Yes, it was inspected about three weeks ago. The Minister appoints a trustee, there are four trustees, and the Canadian Bankers' Association appoint three. The Minister's trustee is the Royal Trust Company of Montreal.

Q. Have they a treasury in the Royal Trust?—A. They have a vault. It is held in joint custody with our own trustee representing the Minister. The three other trustees are appointed by the Bankers' Association.

Q. You mentioned that there was some office discharged by the Central Gold Reserve in connection with rediscounting?—A. Yes.

Q. And the main persons who get the rediscounting are the banks?—A. Well, no—

Q. Mainly? Let me put it this way: The only customers for rediscounting are the banks?—A. Yes.

Q. Yet this Central Gold Reserve, which is composed three-fourths of the banks, do the same duty for the country in connection with rediscounting?—A. Their value to us is this: Supposing we had securities, some small municipalities, unlisted securities, or promissory notes, or something like that, we as a department would have no knowledge of the value of this unlisted stock. It is the business of the banks to value credits, and if we get from them a certificate that we can advance so much—

Q. They pass on their own advances to you, as a matter of fact?—A. Yes.

The ACTING CHAIRMAN: I do not think the witness understood that question or he would not have answered yes.

[Mr. J. C. Saunders.]



## APPENDIX No. 1

*By Mr. W. F. Maclean:*

Q. I asked the witness if this Central Gold Reserve was an adviser of the Government in rediscounting?—A. They may be.

Q. They are asked to report on certain securities?—A. Yes, if they are asked.

Q. And they themselves present these securities?—A. No.

Q. Nobody else can present a proposition for a loan but a bank?—A. There are fourteen banks, and they do not represent the whole fourteen.

Q. They pass upon loans that are passed on by the banks themselves?—A. We have been perfectly capable of passing on our own loans, and we have not asked them to do it. But if we get any obligations involving paper that we have no means of valuing, then we will ask those financial men their opinion.

Q. Well, the Central Gold Reserve is largely a treasury for securities?—A. The Central Gold Reserve has nothing to do with securities. Theirs consist of gold or Dominion legals.

Q. In all cases, Dominion notes, as a matter of fact?—A. No, not at all.

Q. In what proportion roughly?

*By Mr. Coote:*

Q. Is it not about 25 per cent of gold?—A. Something like that. Yes, in the Central Gold Reserve \$9,502,533, is held in gold coins and the balance is in Dominion notes.

*By Mr. Spencer:*

Q. What is the balance?—A. The total deposits are \$65,602,000.

*By Mr. Benoit:*

Q. Where is it located?—A. In the Royal Trust Company, Montreal, in their vaults.

*By Mr. W. F. Maclean:*

Q. In the United States the Government itself has control of reserve funds of this kind, and also the Comptroller of the Treasury. They act for the State and the banks have to do business with them. What we are trying to get at here is something like the American system. In the United States, instead of a central gold reserve controlled by the banks, there is a National Reserve System?—A. You mean the Federal Reserve Banks?

Q. And it is connected with the Comptroller of Currency?—A. You are referring now to the Federal Reserve Bank System of the United States?

Q. In the United States a Federal officer performs the duty that is apparently done here by a Trust Company, in connection with the Central Gold Reserve which is controlled by the banks largely.

The ACTING CHAIRMAN: What is the question you are asking the witness?

Mr. W. F. MACLEAN: As to the American system of Finance—

WITNESS: I do not know that I have looked it into it very closely. I do not see anything the matter with our system.

Mr. W. F. MACLEAN: I am satisfied with that, if he says he does not know a better system.

*By Mr. W. F. Maclean:*

Q. In England, who does this work?—A. I do not know.

*By Mr. Coote:*

Q. I would like to ask if there is any limit to the amount of Dominion notes which his department may issue under the Finance Act?—A. No limit at all so long as the securities are there.

Q. Is there any limit to the amount you may print?—A. Well, no, but I would not print any more than would meet our probable requirements on account of the cost of printing.

Q. Who prints these notes?—A. The Canadian Bank Note Company.

Q. Have you considered the advisability of printing these notes as far as possible in the Mint?—A. In 1912 I went to Washington and went through the printing plant there, and I was rather in favour of doing our own work. I made a report to that effect. But you see the difficulty of getting a man who is capable of taking charge of a public engraving department here. You would have to get skilled men, and we are a young country. My report was never acted on.

Q. The company that prints these notes now must have capable men, I suppose?—A. Yes, but I do not know how many years old they are. They are one of the oldest companies in the business and they are well organized.

Q. Do you know where the chartered banks get their notes printed?—A. Mostly by the Canadian Bank Note Company and the British American.

Q. Is there any limit to the amount which they may print?—A. No, but they must report it to the Canadian Bankers' Association. You see, Mr. Coote, in our own case we must have what we call a reserve. We try to keep ample reserves and so do the banks. These notes printed and are held in the reserve would mean nothing more than paper. They are put there to meet requirements.

Q. Yes, I am quite well aware of that, but I want to know whether the Department has any knowledge of the amount thus printed by the banks?—A. No. They do not make a return to us.

Q. Do you not think you should have some knowledge?—A. No, because the Canadian Bankers' Association has the knowledge, and knows how many notes are printed and in the hands of each bank, and they check it up, as Mr. Ross told you here yesterday.

Q. On what ground would you justify the turning over of this authority to the Canadian Bankers' Association?—A. On the ground of the Canadian Parliament having done so; because they told us to.

Q. Was not Parliament advised—

The CHAIRMAN: Mr. Saunders, speak a little louder, if you do not mind. Be sure you understand the question thoroughly, and then speak up. Let us have the question again, Mr. Coote, if you please.

*By Mr. Coote:*

Q. I asked Mr. Saunders on what ground he would justify the turning over of this responsibility to the Canadian Bankers' Association, the responsibility for knowing the amount of notes printed.—A. Parliament direct us to do that.

Q. Was not Parliament offered the advice of the Department of Finance when this Act was being drafted?—A. That is away back in the former Act; I think I was scribbling entries in a book at that time; I had no knowledge of it.

Q. Might we have the benefit of your advice now, when we are considering changes to this Act, as to whether it would not be better for the Department to attend to this business itself, rather than delegate his duty to the Canadian Bankers' Association?—A. I do not think I could recommend that, because I do not see any need for the casting of any reflection on the Canadian Bankers' Association.

Q. I hope you do not suggest that I have cast any reflections?—A. Mr. Coote, all those questions can be interpreted—I do not think you mean to—but these are challenging the present banking system.

[Mr. J. C. Saunders.]



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Q. I am asking you whether you can give me some reason as to why this duty should not be carried on by your department, instead of the Canadian Bankers' Association, the supervising of the printing and issuing of notes which go from hand to hand in Canada, among the public?—A. I do not think it is necessary. That is my opinion, and I understand that you are only asking me my opinion. I think it is unnecessary.

Q. You think it would not be any better if it were under your own department?—A. I do not think so.

Q. Do you think that the returns which the banks publish monthly should be sent to the Bankers' Association or to you?—A. I think they should be sent to us, as they are.

Q. Would it not be just as logical to have these returns—A. You mean the returns under the Bank Act, that are now sent to us? Should they go to the Bankers' Association? Do you mean that?

Q. I mean the monthly returns required under the Bank Act.—A. They should go to us, most certainly.

Q. If these returns should come to you, why should not the circulation returns come to you as well?—A. We do get the circulation returns. The circulation returns of the bank, and their reserve notes are two different things.

Q. Why should not the returns of the printing of the bank notes come to you?—A. Because there is no business in that; they are not worth, in my opinion, the paper they are written on. Until they get into circulation they do not go into the business of the country.

Q. When these notes are once printed, is there not a great possibility of them getting into circulation?—A. Not improperly, I do not think there is any possibility at all.

Q. You think there is no possibility?—A. No, I do not think you can find any case where they have. I have no knowledge of it.

Q. Have you known of any cases where a bank has exceeded its powers of note issue?—A. Inadvertently, sometimes, and we have checked them up and called their attention to the penalty involved.

Q. Could you tell the committee how you can ascertain whether it is done inadvertently or whether it is done intentionally?—A. The amount is so small. I recognize that the banks have great difficulty in controlling their circulation so they will not violate the Bank Act. They have to make their forecasts, take all their branches into consideration. If a man makes a little slip and does not estimate enough, he may go a few thousand dollars over his circulation, but if it were done designedly, if a bank should start in to do that designedly, they would deal in bigger figures than that, and the over-circulation does not amount to very much. It is all due to errors.

Q. Is it not a fact, Mr. Saunders, that in adding up the circulation returns from several hundred branches, it is just as easy to make a slip in the million dollar column as it is in the one dollar column?—A. If it is they have not done it.

Q. Do you think we should wait until they do it before we take some measure to see that this printing and circulation is in the hands of our own officers?—A. Do I think we should wait till they do it? I do not expect they will do it.

Q. We did not expect last year that the Home Bank would fail.—A. The Home Bank was in a category by itself. Because there was wrong-doing in one bank, you must not be suspicious of the whole fabric.

Q. It was in a different class from the Banque Nationale?—A. Yes, there was nothing to be compared in the Banque Nationale, with the Home Bank.

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Q. If we can come back, then, to the question of the Finance Act, I think you said that the rate of interest charged by you is uniform at five per cent?—A. It is five per cent.

Q. Except for the one exception you mentioned to Mr. Shaw?—A. Yes.

Q. You do not make a practice of varying the rate of interest, generally speaking?—A. That is a matter of opinion, and our opinion is that five per cent is as high a rate as the banks can stand, and their eagerness to get it back again as soon as it is not being used rather supports that. They are not anxious to take it unless business requires it, and they have not the business resources to carry on.

Q. Have you ever considered whether you should possibly at times advance this money to the banks at three per cent, so they would be a little more willing to come to you for this money?—A. We are not anxious for them to take it. Personally I would rather have the banks get along without the Fund at all.

Q. You are not anxious for them to make use of it?—A. No, I am not anxious for it.

Q. What interest rate do you pay on Treasury Bills?—A. We pay five and a quarter per cent at present.

Q. And you allow these banks, I understand, to deposit Treasury bills with you?—A. Yes.

Q. And you issue Dominion notes against them?—A. Yes.

Q. And you charge the banks five per cent?—A. Yes.

Q. Could you give the committee some reason why you pay the banks  $5\frac{1}{4}$  per cent on Treasury bills, and then turn around and advance the bank money at 5 per cent? Is that encouraging the banks not to come to you for loans?—A. The banks do not use Treasury bills in that way at all. It is straight business with them. They only come to the Finance Department for advances under the Finance Act when they really need the money in their business. They get cramped, and then put up securities and get the money.

*By the Acting Chairman:*

Q. I wish you would explain to the committee how, when the Dominion of Canada wants money in its business, it pays the banks with whom you discount your Treasury bills,  $5\frac{1}{4}$  or  $5\frac{1}{2}$  per cent, but when the banks need money in their business, they borrow it from you and you only charge them 5 per cent. There does seem room for some explanation, and perhaps there is an explanation.—A. We only have \$5,000,000 against Treasury bills.

*By Mr. Coote:*

Q. Would you care to give the committee any further intimation of why you loan the banks money at a lower rate of interest than they charge you?—A. When we go to the banks for a loan, we have to go to them under market conditions, and at present we are paying  $5\frac{1}{4}$  per cent for our outstanding Treasury bills. When the banks get advances from us at 5 per cent, they do not make a clear difference of that quarter per cent. They have their overhead expenses which will add to the cost to them, and whatever they charge I do not know; I have no means of knowing. The difference between that would be what their profits are.

Q. Mr. Saunders, you say that when you loan this money to the banks you charge them 5 per cent, but you do not follow it up to see what the banks charge?—A. No, that is none of our business. We have made a business proposition to them, and they have taken advantage of it. We just see that we are secured, and we make a clear profit of 5 per cent on the transaction, ourselves.

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Q. And still you are not anxious to carry on this business?—A. No, I am not. I would rather have our note circulation on a purely gold basis.

Q. That is the reason why you made that other statement?—A. That is the reason, personally, I would like to see our circulation on a gold basis.

*By Mr. Benoit:*

Q. One hundred per cent of gold currency?—A. No; the gold basis does not mean dollar for dollar.

*By Mr. Coote:*

Q. Will you explain what a gold basis is, Mr. Saunders?—A. In England it is considered that 37½ per cent is a percentage of gold to outstanding notes that would warrant going on a gold basis.

The ACTING CHAIRMAN: Gentlemen, I am going to make two requests. The first is for the witness to just cast aside his usual modesty and speak out loud. The second request is that the Committee preserve a religious silence. Will you please repeat the question, Mr. Coote?

*By Mr. Coote:*

Q. What would you consider a Canadian gold basis?—A. Before the war we were over 70 per cent of gold to notes outstanding. To-day we are about 72 per cent of gold to notes outstanding against gold. You see, we have notes outstanding against gold, and notes outstanding against securities, and combining the two we would be about 42 per cent.

*By the Acting Chairman:*

Q. Of gold?—A. Of gold against the whole thing. I may say to the Committee that personally I have advocated going on a gold basis.

*By Mr. Coote:*

Q. Would you explain to the Committee just what that would necessitate, going on a gold basis?—A. Freeing gold.

Q. I think you should explain that a little.—A. I will tell you. You see, when you are on a gold basis, gold will move when the exchange rates get too high. For instance, take my own case. We have large commitments in New York yearly; perhaps I have to put over there twelve million or thirteen million or fourteen million dollars a year. I have been enabled to do that without meeting these heavy exchange rates that have been against us in the past by moving gold. You can ship gold for five-eighths per cent. In ordinary business, when you are on a gold basis, when the banks or whoever controls exchange should say, "Here, I want 1½ per cent to put these funds in New York," you would say, "No, I want gold for these notes of mine," and you take the gold and ship it at say five-eighths per cent, and you would get your money cheaper. Do you not see that when gold moves, exchange cannot go above the cost of moving the gold, very much. That is the principle of the gold basis.

*By Mr. Benoit:*

Q. There is no premium on the exchange of gold?—A. No.

*By Mr. Coote:*

Q. We were on a gold basis before the war?—A. Yes.

Q. Why did we not stay on it?—A. To conserve our gold supplies. As soon as the War came on, if you remember it, Germany was trying to get gold, and we had the scare ourselves, that some of it was slipping through Van-

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couver and ultimately getting into Germany's hands. So we put an export prohibition on gold, and that automatically took us off the gold basis.

Q. A gold basis can only be maintained, then, when we are at peace?—A. A gold basis can be maintained at any time if we do not prohibit the export. As soon as you prohibit the moving of gold, you are off the gold basis.

Q. Do you thing we did the right thing to go off that basis?—A. Surely.

Q. Then on what ground can you want to go back on it now?—A. Because there is no necessity. Germany can have all she likes of it, if she will pay for it.

Q. When you run out of gold, how do you keep your exchange up?—A. I do not think we can run out of gold, but that is the danger. This is my personal opinion. There are financiers who agree with me, and there are others who do not disagree so much but they are a little timid just for that reason that it might cause a run on the gold resources of the banks, and deplete the gold resources too much. That is the reason I am a little timid of being forcible in my opinion that we should go on a gold basis.

Q. I would like to pursue this subject further, but I think it is taking up the time of the committee unnecessarily, so I think we will leave the question of the gold basis. To come back to the operation of the Finance Act, you are really conducting a sort of bankers' bank? You refuse to advance notes to any other concern than a bank?—A. The Act does not permit us to.

Q. Therefore you are really acting as a sort of bankers' bank?—A. Yes. No, not as a bankers' bank, we are acting as a means of relieving business throughout the Dominion. I would not say we were acting as a bankers' bank.

*By the Acting Chairman:*

Q. Your organization is a place where bankers may obtain credit, but nobody else can?—A. Yes.

*By Mr. Coote:*

Q. Then, when the banks come to you for an advance, do you take into consideration the position of that bank, as to its standing, outside of the value which you place on the securities which it offers to you?—A. We take into consideration the position of the bank in another way, in their monthly return. When we get the securities, if they are good we do not have to say to the bank, "Are you good?" If they give us the securities it protects any advance we make under the Act. We are only dealing then with one class of business.

Q. Can you tell, Mr. Saunders, from the reading of these monthly returns which they furnish to you, whether the bank is really in a good or poor position?—A. Certainly, I think we can; if their statement to us is correct, we can tell.

Q. Can you tell whether the statement is correct or not?—A. We have to take them as correct until we know otherwise.

Q. You do take them as correct?—A. Certainly. Under the Bank Act we have to take them. That is all Parliament gives us to do, get the statements and declarations of the banks' officials as to certain headings or certain classes of business which they do, and upon which they make a return to the Finance Department.

Q. Do you not think you should really know more about the condition of the banks before you advance them money under the Finance Act?—A. No, I do not see any connection between their position and us. If a person came to you and gave you good security, you would not care if he was the most insolvent man in the country.

Q. If you go to the bank and want a loan, no matter what the security is, they want a statement from you.—A. That is a matter of credit.

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Q. Did the Banque Nationale have money advanced under the Finance Act?—A. Yes.

Q. At the time it was taken over by the Bank of Hochelaga?—A. Yes.

Q. And you did not know anything about the condition that the Banque Nationale was in?—A. I knew they were having trouble.

Q. Did you know how they got into trouble?—A. Yes, I had a good idea.

Q. Was it through making certain large loans?—A. I understand so, what they call "frozen assets."

Q. If we had a section in the Act which limited the amount of loans which any bank could make, to a percentage of its capital, would it not prevent a large number of these big frozen loans? Would it not safeguard the deposits?

—A. The merits and demerits of that, I would not like to give my opinion on; I really would not know. I know that was proposed at the last Session, that the amount of a loan should be governed somewhat by the amount of the capital of the bank. I would have no remarks on that; I would not like to make any remarks one way or the other.

Q. I should think you would be in a position to advise this committee. This measure was proposed last year, and I think it was turned down by the committee. Have you seen any reason in the last year to lead you to believe that this would be a wise provision to insert in the Act?—A. I would not like to say it would, because I know it is claimed that you would cut off a great deal of business now enjoyed by the banks with people who have large credits. They would have to divide it, go from one bank to another. They would probably get it eventually, but they could not place it all with their own bank. As to the merits of that, I would not consider myself an expert. I am a national finance man, rather than a commercial finance man. If you want just my personal opinion, I do not think they should be interfered with at all.

Q. Do you know whether some of the present banks have not too large an amount of their capital tied up in frozen loans?—A. No. I may say that if you took the trouble to examine the annual returns of the various banks to their shareholders, you would find that the average liquidity of the banks is about 50 per cent of their assets.

Q. And if they had a large amount of the other 50 per cent in frozen loans, that would not be a good position?—A. I would not say as to that. I would not say that that other 50 per cent is all frozen.

Q. Would you consider that a loan to a company which is in liquidation is a frozen loan?—A. A loan by the bank?

Q. To a company which is now in liquidation? Would that be considered a frozen loan?—A. I do not see who would make it.

Mr. SHAW: A loan already made.

The WITNESS: I am not accustomed to being a witness, and I am afraid of answering some questions without thoroughly understanding them, so if I do not speak very clearly that is the reason.

The ACTING CHAIRMAN: Take your time, and be sure you thoroughly understand the question before you answer.

*By Mr. Coote:*

Q. The question I want to put is this. In the case of a loan which has been made to a company by a bank, that company afterwards going into liquidation, with the loan still unpaid, they are owed by that company to the bank. Would you consider that to be a frozen loan?—A. Mr. Coote, it would depend on how badly the company was involved. A company might go into liquidation and come out practically square, or nearly square, but if it were hopelessly involved, of course it would be a frozen loan.

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*By the Acting Chairman:*

Q. Forgive me if I ask a question, but I do not want a mistaken impression to get to the committee. Suppose a bank had loaned to a company in liquidation, a considerable sum of money, but had got security, say warehouse receipts on good commodities, the fact that the debtor was in liquidation might not prevent the bank, within a reasonable time, from realizing in full, if the security were good.

MR. COOTE: That is not the case which I am trying to present to the witness.

THE WITNESS: You are referring to a loan on the credit of the company, on the general credit?

*By Mr. Coote:*

Q. A loan which was made to the company probably long before it went into liquidation.—A. And not secured except on the general credit of the company?

Q. I am trying to get some definition as to what is a frozen loan.—A. A frozen loan is a loan that you cannot readily realize on. I believe the trouble with the Home Bank is these loans on timber lands in British Columbia, which could be well designated as frozen loans, because there is not much likelihood of their being realized on, perhaps for years.

THE ACTING CHAIRMAN: Do the present returns which you are giving afford you sufficient information to enable you to determine the real standing of the banks?

WITNESS: Absolutely so, unless there is really knavery or roguery.

MR. W. F. MACLEAN: Does it catch the roguery? That is the point.

*By Mr. Coote:*

Q. Would you be able from those returns to tell whether a bank had loaned all its capital to one concern and that that concern was in the hands of the liquidator?—A. From the returns?

Q. From the returns now being furnished to you?—A. No, I would not have that knowledge, unless in examining the returns of that bank I was not quite satisfied, and I would be justified in asking the bank to clear up anything that did not seem to me to be clear or that I did not understand.

Q. You are at present receiving returns from fourteen banks. Are you satisfied in every case that these returns are showing the true condition of the banks?—A. I certainly am. I have no reason to think that any bank is doing anything that is not right in the returns. If they are, I would be helpless.

MR. W. F. MACLEAN: Then why the inspector-general that the Minister is providing for?

HON MR. ROBB: Do you object to it?

MR. W. F. MACLEAN: No, I want it. That proves the necessity for it. The Department would not admit that it was necessary.

WITNESS: I beg your pardon. I admit that if this inspector-general is appointed, one of the things he could do would be to verify the returns under the various headings sent to us by the banks, and he would do so.

*By Mr. Malcolm:*

Q. In the course of examining those reports, have you found them satisfactory?—A. Yes.

Q. But occasions have arisen where you have enquired further to establish certain facts in your mind that you doubted in the reports?—A. Not that I doubted, but that I did not understand.

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Q. To clear up matters in the reports that you thought needed to be cleared up?—A. Yes.

Q. Having got the further information by request from the bank as to its affairs, you act in what way?—A. Well, if they are satisfactory I do not act.

Q. After getting reports from the banks, as Mr. Coote suggests you find that their assets are too largely centered in a few accounts, what is the procedure?—A. Mr. Malcolm, I do not think I am called upon to decide just what the bank shall do with their assets, or shall not do. That is banking business and I am not in the banking business.

Q. That is all right, but what I am trying to get at is to establish the fact there is a need to relieve the Finance Department of the danger of reports not being accurate. The Minister has seen fit to propose that an examiner or some official should be appointed to assist you. If the statement made by a bank to you was not entirely satisfactory to the Finance Department, you would enquire further?—A. I certainly would.

Q. You would be in a more difficult position to correct it, after you got the information, than you would be in if there was an inspection at the head offices to prevent a bank from getting into that condition.—A. Yes, of course it would be more difficult if we found that a bank were in such a condition.

Q. In other words, inspection of the head offices which would, in my judgment cover those large accounts—an inspection of the head office by a Government inspector would take away a lot of the danger of those large accounts existing at all?—A. Yes, it would have that effect.

Q. In your knowledge of banking, you have had occasions, I suppose, where you found accounts of the bank frozen, in a rather non-liquid condition as a result thereof. You have known that to occur in Canada?—A. From the returns sent to us?

Q. That happened in the Home Bank?—A. Yes, but that did not show in the returns.

Q. Of course not, but you know that that occurred?—A. Oh, yes.

Q. You have information that in almost every case where that state of affairs has existed, it has been the result of head office loans?—A. Apparently.

Q. There has never been a case in Canada, to your knowledge where a bank has become involved through lack of head office inspection of its branches?—A. Well, I would not know; I do not know any.

Q. You will admit that in any banks that have become involved the loans have been head office loans; the loans which have caused difficulties to the banks have been head office loans?—A. Yes, so far as I know.

Q. You feel that if the Finance Department had an inspection of head offices, it would eliminate the danger of this type of loan which existed, causing frozen assets of the bank which they could not liquidate?—A. Yes, it would help.

Q. Head office inspection would cover the point?—A. If the officer was a good man and understood his business it would help.

Q. As to those loans, have you found under section 88 advances made to corporations by the banks to be of a type that would keep the bank from liquidating in a reasonable length of time?—A. We have no details of the loans under Section 88. The way we touch on that is where notice of intention is filed.

Q. In the ordinary course of banking business you have no information?—A. No.

Q. But on the occasions when you have inquired further and you got further information—I am not asking you to reveal anything confidential to the De-

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partment that you know at present—I am asking for information in regard to things that are past and that do not bear on the present condition of the banks—have you not found that under Section 88 hypothecation of liquid assets in most cases has been easily realized upon?—A. I have never gone into that field; I have no personal knowledge.

Q. Of how the loans were made that were dangerous loans?—A. No.

Q. To cite a case that is well-known to the public, and that will not impair the credit of any existing bank, in what form of hypothecation were the timber lands in British Columbia given to the Home Bank as security for loans?—A. That was an internal arrangement with themselves.

Q. It was not under Section 88?—A. The bank held the licenses.

*By the Acting Chairman:*

Q. The licenses were transferred to the bank?—A. The licenses were transferred to the bank.

*By Mr. Malcolm:*

Q. It was not an ordinary banking business; it was a speculative gambling business, was it not?—A. It was a mighty bad business.

Q. Do you think that a bank inspector appointed by the Government to look into head office loans would sanction that type of loan?—A. I am sure he would not.

Q. In other words, you do not think that that would be good banking?—A. No.

Q. If the bank had made a loan of that type on that kind of security, what would the inspector have done, or what would the inspector do after the loan is made?—A. I do not know; there has not been an inspector yet. I do not know what he would do. He would be a man with banking experience and banking knowledge, but what he would do I do not know. That is out of my financing experience.

Q. What I am trying to get at is, what position would you find yourselves in supposing another bank made that type of loan on a timber license which is not easily saleable and which would be hard to realize on, thereby freezing a large portion of its assets; supposing the inspector found that out, he would then be in a position to report that condition?—A. Yes.

Q. Then, to use a vernacular expression, it would be up to you?—A. Up to the Minister.

Q. Up to the Department. What would be the result even if we had an inspector and he found that situation existing? What would be the protection for the depositors?—A. I imagine that the Minister would get in touch with the bank and try if possible to straighten it out so that it could recover itself. If it was hopeless, I think that under the provision he would call in the Bankers' Association and put in a curator.

Q. Then the fact would be, even if we had a Government inspector that a condition might arise under Government inspection of a loan being made on certain terms which would freeze the assets of the bank to an undue extent, and the inspector would report to the Finance Department, and the bank would be in the same position as if the Finance Department had found it out without the advice of the inspector?—A. I do not quite understand.

Q. What I am trying to say is that inspection is only inspection, it is not management?—A. Surely.

Q. And if the condition was not satisfactory to the Minister of Finance or to yourself from the statement of the bank, and you privately investigated and found that by an undue amount of money being loaned on security not easily liquidated, the bank's condition was not very liquid, the Minister would then be



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obliged to do some private negotiating to try and put that bank into a more liquid condition. If you appoint a Government inspector, the same condition might exist. The only difference would be that it would be more likely discovered and reported to you?—A. Surely.

Q. Now, Mr. Saunders, what in your opinion would be the wiser course for this committee to recommend in order to prevent a bank making such large advances against non-liquid securities, so that this condition could not arise at all?—A. I do not know just how to answer that question, because I cannot understand a bank making a big advance on non-liquid security.

Q. The fact exists that they do make that sort of advances.—A. Have they not been led into it step by step, and then by trying to save themselves they get involved, the way the Merchants Bank did?

Q. The condition has existed.—A. Yes.

Q. In other words, bank inspection will be a help, but it will not prevent that condition?—A. No. I may say that my opinion is that if some of the banks who got into unfortunate circumstances, as soon as things did go badly, had taken their losses, and stopped there, they would have been saved, but they tried to nurse the thing along and got in deeper and deeper.

Q. You would not like to hazard an opinion as to what the committee should consider to avoid that condition being brought about in a bank?

Mr. GOOD: The limitation of loans, you mean?

*By Mr. Malcolm:*

Q. The question of security as to liquid assets?—A. My opinion is that bankers are trained business men, and that it would not be advisable to interfere with their own business principles, and the running of their business too much, that we should not be a grandfather to them, because they do not need it.

Q. But, Mr. Saunders, you realize the responsibility of the Government of Canada to depositors, when we have government control of banks, and if recommendations or regulations could be included in the Act which would eliminate the danger of a certain set of conditions being brought about, not by the good banker but by the speculative or gambling banker, it would be in the public interest to have these regulations introduced?—A. My opinion is that you cannot control the bad manager or the speculator in business by legislation.

Q. Then you think the only hope is to have inspection, so that it may be detected at as early a moment as possible?—A. I think perhaps that would be the better plan.

Mr. IRVINE: Mr. Chairman, I would like to ask one or two questions.

The ACTING CHAIRMAN: I would be glad to have you do so, sir, but Mr. Coote asked me privately whether he could ask one or two more questions to finish.

Mr. COOTE: With Mr. Irvine's permission.

Mr. IRVINE: By all means.

*By Mr. Coote:*

Q. I just wanted to ask Mr. Saunders a couple of questions regarding these monthly returns. Will you tell the committee, Mr. Saunders, what is meant by "bills payable" by the banks?—A. That is bills they owe.

Q. Could you explain to the committee how a bank, or what bills a bank would owe amounting to \$7,000,000? That is a little hard for some of the committee to understand, why a bank would owe bills to that extent.—A. The bank

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must have been realizing on some securities, getting the moneys to go on, and they owe that money. Banks often raise money on their resources, you know.

Q. Do they borrow money, outside of what they borrow from you?—A. I do not know the management of a bank business. As I said before, I am trained in national financing. I cannot go into the banks and determine what is the detailed nature of their business; I just know that they give an amount "bills payable." I know what bills payable means; when we get them we have to pay them.

Q. I think the committee would understand it regarding private parties.—A. What it is composed of I would not know; it is not necessary for me to know.

Q. Some of the committee are at a loss to understand how the bank would have bills payable of \$7,000,000. You cannot explain that?—A. No.

Mr. BENOIT: I was under the impression it was over eight and a half million.

Mr. COOTE: This is the total. I saw returns issued a year ago, and one bank had close to eight millions itself, while the other banks had comparatively small amounts.

The WITNESS: Supposing a bank was doing business with agents or other banks at far-off places, they would have bills payable to another institution, and they would have bills receivable from other institutions who owe them.

*By Mr. Coote:*

Q. Yes, but you know there is a heading in this bank return which shows balances due to other banks, and correspondents in both foreign countries and this country, and this is altogether outside of that. Then there is the heading, "Acceptances under letters of credit outstanding." If, for instance, you saw that one year a bank had \$3,500,000 outstanding under that item, and the following year it had \$20,000,000 outstanding under it, would you look into that matter and try and get some explanation for an increase like that in a year, under that heading?—A. That would depend upon the travel. People go to a bank and get letters of credit, sometimes there is more volume in that business at different seasons of the year. People are going over to England for the Exhibition this year, and there will likely be a greater volume of business under that head than there would be in the winter months.

Q. But this \$20,000,000 I have here, I think, was at the end of February, and it seemed a very large amount when a year ago the bank had \$3,000,000.—

A. What are you comparing it with? How much was in February?

Q. \$20,000,000.—A. And with what date were you comparing it?

Q. With the year previous, the same bank.—A. If you remember, in your revision of the Bank Act last year, you changed the law about that, and did not allow them to carry this business on in the same way.

Q. It is due to the change in the Bank Act?—A. To the change in the Bank Act.

Q. Just one other question, then. You have heard, of course, about certain confidential files that were in your department regarding the Home Bank?—A. Yes.

Q. Were you aware that this confidential file was there?—A. No.

Q. Are you aware whether there are any more confidential files regarding any other banks?—A. Now, Mr. Coote, a confidential file is a Minister's file, practically. The departmental filing and the Minister's filing are two different things. The Minister has a file of his own, and if he has any communication with a bank which is confidential and is held confidential, I might not know anything about it unless he consulted with me. It would be confidential



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until such time as he sent it out and said to put it on the departmental file.

Q. You are not aware that there are any?—A. No, I have no knowledge of any confidential files.

*By Mr. Irvine:*

Q. Mr. Saunders, you are an official of the Department of Finance, of course.

Q. And you have some expert knowledge of the financial questions generally?—A. I would not say expert knowledge; I have a knowledge that I have obtained through experience in our own work, in national financing.

Q. My point is that if you offered an opinion, for instance, on the gold basis as you have done, you would like that opinion to be creditable to the Department of Finance of Canada?—A. But I qualified that opinion on the gold basis. To show you how much I respect my expertness, I said there were high financial men who were a little fearful of going on a gold basis as I in my humble opinion thought we could, and that rather jolted me.

Q. I am only going to ask one question about it. Would you wish it to go on record that the sole reason why we discontinued the gold basis during the time of the war was to stop the Germans from getting our gold?—A. No, I will put it this way. The reason we discontinued the gold basis during the war was for war purposes.

Q. That is a very general answer, but I will take that where I would not take the other.—A. Perhaps I should not have brought in the Germans.

*By the Acting Chairman:*

Q. That was all right; that was one of the reasons?—A. Yes.

*By Mr. Irvine:*

Q. Is there anything, Mr. Saunders, you would recommend to this Committee that would be of assistance in the protection of depositors in the future? Would you have any recommendation to make?—A. No. I think really the appointment of this inspector as suggested by the Minister of Finance would be as far as we could go, and would help considerably if not totally to protect the banks in the future.

Q. Did I understand you to summarize the functions of this proposal of the Minister of Finance a moment or two ago as being two-fold, namely, as a nursery for weak financial institutions, and then if that failed, as an undertaker to bury them?—A. I do not like your description. I think this way, that it would give the Finance Department a little more assurance as regards the position of the banks if an official of the Department should verify the position of the banks from the figures sent in. Then, if the banker is getting a little off the track of sound business principles you could advise with him and nurse the bank back again, but if it were hopeless, I would not call it undertaking, I would ask the Bankers' Association to send in a Curator.

Q. You have expressed great faith in the bankers?—A. I have.

Q. Would you be in favour, then, of eliminating all control of banks from the Finance Department, and giving it to the Bankers' Association?—A. I would not.

Q. Why not, if you have great faith in them, and if they have all the information now, and if you cannot even doubt them; why not let them manage it? I want you to tell us why you would not.—A. I would let them manage what is left to them to manage. Under the Act we are managing them pretty well now. The restrictions under the Act are great. Did you ever study, Mr. Irvine, the merits of this present Bank Act over the last Act? Did you ever look into it closely?

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Q. I have, but I am not answering questions just now. I have studied it a little, but I want your opinion as to why you would not allow them to have full control over the banking situation? They are efficient, according to you, and they are very honest, so much so that you cannot even doubt them.—A. In England there is no such control over the banks. In the banking institutions in England they do not have any such control as we have here.

Q. Then why not eliminate it and go on the English basis?—A. I am not called upon to answer that.

Q. You have no recommendation to make?—A. No, I would not express an opinion.

*By Mr. Speakman:*

Q. There is one thing I would like to ask on the evidence already submitted. I understand, Mr. Saunders, from your explanation of the Finance Act, that the Government may loan to the banks for the carrying on of their business money in Dominion notes to an amount limited by the demands of the banks and the security given?—A. Yes.

Q. And the most desirable collateral is Dominion obligations, Dominion bonds and Dominion guaranteed bonds?—A. Yes.

Q. I also understand that the Government borrows from the banks certain monies for carrying on its business operations?—A. Yes.

Q. I would like to ask you if you would hazard an opinion as to the possibility of the Government borrowing from itself on the strength of the same collateral which it now uses as a basis for loans to the banks, loaning the same money to itself under Dominion notes, which it now borrows from the banks in that roundabout way, and so eliminate the interest it is obliged to pay?—A. The printed bills that we have now outstanding are not recent ones. They are war treasury bills that amount to about \$91,000,000. They are the residue of \$143,000,000 which we borrowed from the banks in war time. There is no disposition on the part of the Finance Department now to make any borrowings from the banks. We have reduced the amount from \$143,000,000 to \$91,000,000, and I would like to get them further out of the way if we could. But there is not much prospect in the near future of making many further reductions. The Finance Department feels that it will not be necessary to go to the banks to borrow any monies at all. We have not been borrowing from the banks for years. We are trying to reduce what was borrowed during the war time. These are war time left-overs, these treasury bills.

Q. I understand then that the Government has ceased to borrow any monies from the banks, but at the time they did borrow, the security was the same security upon which the banks may now borrow money from the Government, that is, Dominion obligations?—A. At the time we did borrow during the war, yes.

Q. You used Dominion obligations as securities in the form of treasury notes?—A. Oh yes, we gave them treasury notes.

Q. And at the present time, these Dominion obligations in another form, in bonds or guaranteed bonds, are being used by the banks as a basis for their borrowing?—A. Just a fraction. They are holding the treasury notes in their vaults as an investment.

Q. You have not considered the possibility of utilizing these Dominion obligations as a means for self-advancement?—A. Oh no, the Minister would put me out if I did that. I try to do sound financing in the Finance Department; I would not consider that sound financing.

MR. SPEAKMAN: I have been trying to follow your evidence logically and without any disposition towards wild finance, I have been unable to see the

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difference between lending Dominion notes for Dominion obligations, and lending to the Dominion government under Dominion obligation.

The witness retired.

The Committee adjourned until 3.30 p.m.

## AFTERNOON SESSION

The Committee resumed at 3.30 p.m., the Chairman, Mr. Vien, presiding.

The CHAIRMAN: Gentlemen, I understand that Mr. Saunders has some further explanations to give to the Committee on a point that was raised this morning. I suppose the Committee will not have any objection to his taking the stand again.

J. C. SAUNDERS recalled.

*By the Chairman:*

Q. I understand, Mr. Saunders, that you would like to tell the Committee something additional?—A. Just to amplify what was said here this morning in connection with the knowledge or control that some members expressed that the Finance Department should have over the delivery of notes that are printed for the banks. The Department under the law has to leave that to the Canadian Bankers' Association. What I did not say but might have said is that the Canadian Bankers' Association as a practice, monthly, send us a report of their findings. Of course, we are not responsible for it, but we have knowledge in that way of what is going on in connection with the delivery of notes to the banks by means of this monthly report which the Canadian Bankers' Association find to be the fact after inspecting the banks in that respect monthly.

*By Mr. W. F. Maclean:*

Q. Is there a Government savings bank in connection with your Department?—A. Yes, very limited.

Q. What is it called?—A. The Dominion Government Savings Bank.

Q. Where does it operate to-day?—A. In Prince Edward Island, at Halifax, St. John and Victoria.

Q. That is in the Maritime Provinces and the Pacific Province?—A. Yes.

Q. Is there a Deputy Receiver General's office in Toronto?—A. We call him Assistant Receiver-General.

Q. That Department at one time did take private deposits?—A. Yes.

Q. Will you tell us under what circumstances that very active Government savings bank ceased to operate in Toronto and when?—A. Mr. Maclean, the policy of the Department is—you see the Post Office Department has savings banks all over the country in small places, and it was a case of the Department of Finance maintaining a separate one, and our deposits from the public kept growing less and less, and the management of it became pretty expensive and were transferred whenever we could transfer them to the Post Office and let the Post Office handle the whole thing.

Q. And you will have the same thing in the Maritime Provinces?—A. Yes, as soon as we can. I have it in mind to do that.

Q. They are still operating in the Maritime Provinces?—A. Yes.

Q. I want to know why such an excellent system of Government savings banks with ample security is being discontinued, and why it is being discontinued in my own province, particularly in the city of Toronto. Why did it cease to function as a Government Savings Bank in Toronto?—A. The Assistant

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Receiver General's office in Toronto is a very busy office. It does a tremendous volume of business in taking care of the banking facilities in the province of Ontario. In addition to that, we have put on to them the handling of our bond issues, and to carry on savings accounts there with the public would entail quite a bit of overhead expense which could be handled by the Post Office. The Post Office takes care of the Toronto savings.

Q. Could a client of that savings bank who had money deposited check it out?—A. He had to give notice.

Q. In a Government savings bank?—A. Yes.

Q. They could not get a marked cheque?—A. No.

Q. And in the Maritime Provinces and British Columbia they can not get a marked cheque against their deposits?—A. No.

Q. Why should not a depositor in the Government Savings Banks have the privilege that the public have in the other savings banks of checking out their money?—A. I believe that the Post Office Department are now making arrangements to modify that to a certain extent so that a depositor can at once draw up to a certain sum.

Q. I have a notice on the order paper to that effect. I want that to come out. Do you know anything about the Government Savings branches in the Province of Ontario?—A. No, that does not come under the Bank Act at all.

Mr. W. F. MACLEAN: I have got the answer that this excellent Government savings bank that we had in Toronto—

Mr. HUGHES: Is it excellent?

Mr. W. F. MACLEAN: It can be made excellent but somebody conspired to close that office in Toronto. That is the charge I am making. It was not done by the present Government it was done in the old days, but it was done. I will make an argument further on, but I have got the admission of the Department that the excellent Government savings bank which did function in Toronto has ceased to function now and does function in these other provinces. I want you, Mr. Chairman, if the Committee will join me in asking for it to have a representative of the Government's savings branches in the Province of Ontario come here and give evidence as to the Government organization in that province. I suppose you may have to address the Prime Minister of Ontario or the Provincial Treasurer but allow him to come here and give evidence as to the workings of that savings branch in Ontario. I will make that a motion.

*By Mr. Healy:*

Q. Mr. Saunders, did I understand you to say, or rather did you say this morning that the Home Bank bills when used were as good as any other bills?—A. Yes, to the public; I do not think there is any doubt of it.

Q. Nor do I, but let me quote from Mr. Justice McKeown's report, page 25. (Reads).

"The total paid-up capital and reserve of the bank had been lost." What is the legal basis of the issuance of currency under the Bank Act?—A. The issuing of notes by the bank itself to the extent of the unimpaired paid-up capital.

Q. So that in 1916 there was no legal right for the Home Bank to issue any notes?—A. No, and yet if they issued any additional notes—you know that one of the main things a bank tries to do is to put out its circulation, and as soon as the bank is able it will get a circulation equal to its paid-up capital. If the Home Bank, previous to the point where you say it had its capital unimpaired—supposing it had out a certain circulation in 1913, could we not take that as a date at which its paid-up capital was not impaired?

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Q. I will assume, for the sake of argument, that it was unimpaired until 1916?—A. Its unimpaired capital then was \$1,939,300, and it had a circulation out of \$1,666,000, a couple of hundred thousand dollars less than they could have if they wished. That circulation has never been lessened. It was out legally, it was out against the bank's unimpaired paid-up capital. If the bank desired, or if they found their capital impaired at any time, what would be the result? They would have to call in a certain part of their note issue so that they would have a note issue equal to their unimpaired paid-up capital. Where would that get them to? It would not help the depositors any; they would have to sell or make use of one of their assets. They would have to lessen their assets to represent those notes out of circulation, and the depositor would be as he was. The depositor obtains no help, or liability, you might say, for the note issue of the bank. That does not work in any way to help or otherwise the depositor. That is the way I look at it.

Q. That is your opinion?—A. That is my opinion.

Q. I am glad to have it. Now I am going to see how the facts work out. It lost its legal right to issue notes in 1916, entirely?—A. Yes.

Q. That is correct. Remember that is what Mr. Justice McKeown finds?—A. I have not studied the report.

Q. He finds that the total paid-up capital had been lost in 1916?—A. Well then, that is the fact.

Q. For the sake of argument, we will say that the total capital out on that date was \$2,000,000; it would not be quite out?—A. \$1,805,000.

Q. Was out on that date?—A. Yes.

Q. Illegally?—A. I doubt after the bank closed its doors.

Q. Whatever circulation was out on that date, was out illegally? Is that right?—A. Yes.

Q. And it was out illegally from 1916 to 1923?—A. Yes.

Q. Until the bank closed its doors. And it was under the jurisdiction of only two people, or two concerns, at that time—the bank itself and the Canadian Bankers' Association. The Government had no jurisdiction over it, is that right?—A. Yes.

Q. Then we come to the date when the bank closed its doors. The amount of circulation out was represented in the total assets by some form of security?—A. The amount in circulation out was represented—

Q. In the total assets, because it had been put out on something?—A. The net circulation was a liability, and there were assets against it.

Q. Had the paid up capital not been depleted, how much would the assets have been increased?—A. You mean if it was—

Q. If the capital was still intact, unimpaired, how much would the total assets on the day the bank failed have been increased?—A. By the value of the \$2,000,000 of its liability. That was in their assets somewhere.

Q. Exactly, because the note issue was illegally out and the depositors finally lost the total amount of the issue out on the day the bank failed?—A. I do not hold that, and I will tell you why. If the note issue was, as you say, illegally out and if it had been taken up and not allowed to be illegally out, the assets of the bank would have to be depleted to bring its notes in.

Q. Correct. If it had been taken up in 1916, the depositors would not have lost a cent. Mr. Justice McKeown so finds?—A. I hardly think that he would find it was the circulation. It was the assets. In 1916 that would have taken care of all that and all the depositors too, not the circulation.

Q. That is the finding, and I think I will be able to refer you to that in his judgment?—A. I have not seen the report, but if it is as set out in the paper last night, the depositors would not have lost anything in 1916 but that was on

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account of the bank being in such a position that the assets of the bank could have taken care of the depositors. But the circulation would have nothing to do with the safe-guarding of the depositors.

Q. Am I right in saying this: When it was discovered that the bank had no legal right to issue notes, which was the year 1916, had the circulation been called in at that time, would not the depositors have been saved the loss?—A. No, Mr. Healy, the depositors would have to call it in; they would have to sacrifice the like amount in their assets, which, before calling it in, would be a protection to them. They would have to give up their protection to that extent.

Q. I do not know whether you get my point?—A. I think I do.

Q. At a certain time in the history of this bank it was discovered that the note issue was entirely illegal, and that happened to be the year 1916. Had the note issue been called in at that date, Mr. Justice McKeown finds, and I will refer you to the page, that the depositors would not have lost a cent?—A. I can hardly credit that Justice McKeown—

Mr. HUGHES: What he says is, if the bank had been wound up on that date?

WITNESS: Not having read the report I would say he must mean that the depositors would not have lost a cent because the assets of the bank, which do not include the circulation would have provided for the relief of the depositors, but if the note circulation had been drawn in, they would have to have lessened those assets to take in the illegal circulation, which would have made their assets so much less, as applying to the depositors losses.

*By Mr. Healy:*

Q. Here is the statement, on page 20. This is under the heading "Answer to question 4". (Reads).

"(a) Liquidation immediately following such audit or

"(b) Amalgamation with another bank.

"And the effect of such audit upon the position of the present depositors:—

"If made in 1916 the present depositors would have suffered no loss."

A. You have not given me anything there about the bank circulation. I claim that the bank circulation is altogether apart from the assets.

Q. Please excuse me; I get your point exactly but you apparently do not get mine.—A. Oh, yes, I do, but I do not value it.

Q. I am sorry, because it is really valued at \$2,000,000, in my opinion. I claim that whoever was in charge, should have called in the circulation of the Home Bank in 1916. Had that been done, the Bank would have been wound up. Is that right?—A. No.

Q. Surely, if you called in the note circulation?—A. If you called in the whole capital—

Q. Let me have your opinion, because on the same page I have Mr. Edwards' opinion; he says the bank would have lost \$3,000,000.—A. Anyone knows that if the capital is gone the bank is gone.

Q. Did you answer my question, that had the circulation been called in, the bank would have been wound up?—A. Probably, yes; I do not see how it could have gone on.

Q. And had it been wound up at that date the Home Bank depositors would not have lost a cent?—A. No, not on account of the circulation.

Q. The circulation was illegal, and should have been called in?—A. The assets would have been reduced.

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The CHAIRMAN: You do not leave the witness sufficient time to answer your questions, Mr. Healy.

Mr. HEALY: I allowed the witness five minutes to make an explanation of the whole situation.

The CHAIRMAN: The two last questions you put, he did not have time to answer.

*By Mr. Healy:*

Q. I will give all the time required. I had reached the point where, if the illegal circulation had been called in in 1916, the depositors would not have lost at all, according to the finding of fact in Mr. Justice McKeown's report.—A. If the bank had been wound up in 1916, they would not have lost a cent. The circulation would not enter into it at all.

Q. Had the circulation been called in on that date, what would have been the result?—A. The result would have been the resources, the liabilities and the assets of the bank would have to be administered to reimburse so far as they would go, the depositors and other claims on the Home Bank, and the report does not say anything about the circulation.

Q. The bank would have been wound up; is that correct?—A. Yes, I think so.

Q. Without loss to the depositors?—A. Yes.

Q. Therefore, by allowing this illegal circulation to continue from 1916 until 1923, the depositors not only lost \$2,000,000, but they lost 55 per cent of their total deposits?—A. No, not at all. We do not agree on that.

*By Mr. Hughes:*

Q. I have a question or two that I would like to ask now. Mr. Saunders, will you open the report at page xxxiv, and read under b, "And the effect of such audit upon the position of the present depositors:—if made in 1916, the present depositors would have suffered no loss." Is that not a mistake, the word "present"?—A. That must be.

Q. The Judge must have meant the then depositors?—A. Yes.

Q. He must have meant that?—A. Yes, there is no doubt about it.

Q. It is either a misprint or a misstatement?

Mr. HEALY: It would be the present depositors at that time.

The CHAIRMAN: Order, please.

*By Mr. Hughes:*

Q. The word "present" is incorrect, is it not, or is it?—A. It does look odd, but if it were wound up in 1916 there would be no present depositors, there would be only the depositors at that time.

Q. Very well. If the bank had been wound up at that time, or if a proper audit had been made at that time, the assets of the bank would have been sufficient to meet all its liabilities to the public?—A. Yes, that is the way I take it.

Q. That is the finding of the Judge?—A. That is the way I interpret the finding.

Q. And the circulation had nothing whatever to do with that, either making it better or worse?—A. That is what I am trying to impress upon Mr. Healy.

Mr. HEALY: The calling in of it had everything to do with it, and it was out illegally.

The WITNESS: The circulation that is out, supposing there was \$4,000,000 out illegally, the depositors would be helped by it, because that circulation must be redeemed out of the Bank Circulation Redemption Fund, if the assets would

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not cover it, and if their own deposit in the circulation fund did not cover it, the other banks would have to lose it, and pay that, which would benefit the depositors.

*By Mr. Hughes:*

Q. If a proper audit had been made at that time, and the real condition of the bank in 1916 had been brought to the notice of the Minister or the Government and they had taken action to have the bank wound up, then the depositors would have lost nothing; the public would have lost nothing?—A. The Judge says so.

Q. That is the finding of the Judge?—A. Yes.

Q. And the losses which the depositors made later when the bank was wound up did not result from the circulation of the bank, but resulted from the fact that the bank had gone on doing business with an impaired capital, and this condition was getting worse from year to year?—A. You have put it better than I could myself.

*By Mr. Good:*

Q. Mr. Saunders, I think you stated this morning that if the monthly returns sent in by the bank were either unsatisfactory to you or you did not understand them, you required some special return or made some special investigation? Is that right?—A. No, I did not say we made any special investigation. I would simply, in my official capacity, write the bank officials, pointing out anything I did not understand and get their explanation for it. I can do that.

Q. Then the special investigation that you referred to would simply take the form of a letter of inquiry from you to the bank?—A. Yes, and if it were not satisfactory, if I had fears of some trouble, I would immediately bring it to the Minister's attention and ask him to exercise his privilege under section 56 A.

Q. On how many occasions have you made special inquiry?—A. During my holding of the office, only once.

Q. Once. On what occasion was that?—A. I absolutely decline to give any particulars of it. I found everything was all right, and that is all I can say.

Q. You regard that as confidential?—A. Not only confidential, but in the public interest, especially in this unrest that is abroad. You know what happened to the Dominion Bank in Toronto.

Q. Would you mind stating at what date you made that inquiry?—A. I do not care to make any statement at all; I would rather not.

Q. Once since 1920, when you became Deputy Minister, is that right?—A. Yes, I would say that. I do not want to refuse anything, but I think it is better that I should not give any information.

Q. When the banks require metal coinage, with what do they pay for it?—A. We put out the metal coinage, silver and copper, and it is held in reserve in each of the A.R.G.'s offices.

*By the Chairman:*

Q. What does A.R.G. mean?—A. Assistant Receiver General. Then if the bank wants silver, they have to come with either gold or Dominion notes.

*By Mr. Good:*

Q. Legal tender?—A. Legal tender.

Q. And the Dominion Government exchanges the metal or token money for the gold or Dominion notes?—A. Yes.

[Mr. J. C. Saunders.]



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Q. I think you stated this morning that only once in your memory has the rediscount rate, or the rate of interest charged for advances under the Finance Act been different from five per cent? Is that right?—A. Yes.

Q. I think you also stated this morning that on no occasion that you recall was the matter discussed in the Treasury Board, as to the propriety of altering the rate of interest. Is that right?—A. Yes. I may say, if you are going to find fault with that, I would be the one to blame. I have not seen the necessity for suggesting it to the Chairman of the Treasury Board.

Q. As a matter of practice, your suggestions and advice on these matters and these questions have been accepted by the Treasury Board, have they?—A. I am rather in the habit of saying a good many things, but they are not necessarily accepted.

Q. In regard to the rate of interest under the Finance Act, do you recall any instance when any member of the Treasury Board suggested a modification of the rate?—A. No.

Q. And you never suggested it yourself?—A. No, I did not.

Q. Do you recall a condition of inflation during the years, say, from 1917 to 1920, in this country?—A. I do, but I was not Deputy Minister then, and I was not so vitally concerned in these larger questions of finance as I would be to-day.

Q. However, you recall the fact?—A. Yes, I know.

Q. Do you recall the fact that there was a deflation began in 1920, and continued for a year or two?—A. Yes.

Q. Do you think it might have been good policy on the part of the Treasury Board to have lowered the rediscount rate from 1920 on, in order to assist the banks in carrying their customers and preventing the catastrophes that occurred?—A. Mr. Good, in my judgment, especially after I took the office of Deputy Minister of Finance, the banks had margin enough between five per cent and what they would probably charge their customers to interest them in taking charge of their customers and not allowing them to suffer for want of assistance.

Q. You think, then, that no customers did suffer during that period from pressure of the banks?—A. I have no knowledge of it.

Q. You have no knowledge of any distress caused throughout Canada by pressure from the banks during that period?—A. No.

Q. In your position you would not be in the way of getting any such knowledge?—A. No.

Q. Not even from reading the newspapers?—A. I do not take the newspapers very seriously.

Q. Do you state to this committee that you have no knowledge of the charges, if you like, or the protests being made by producers and merchants against the policy of contraction of credit during these years?—A. Oh, yes, I knew the banks were restricting their credits to conserve themselves, one might say.

Q. Did you think that policy of contraction was advantageous to the country, or had you no information on that point?—A. I am rather inclined to think—I am not an expert in it—that if the banks did not save themselves, if they allowed themselves to extend credit, and then went up, it would be more damage to the country than any damage which might occur through restricting credit.

Q. But you are not prepared to admit there was any damage done by the rapid contraction of credit during that period. Do I understand you to say that?—A. I would hardly like to give that as an answer; I would hardly like to give my opinion in that respect.

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Q. Have you an opinion?—A. I would not express it, because it might not be the right one. I do not think I am in a position to judge.

Q. That is, you may have a tentative opinion, but you have not sufficient confidence in it to express it?—A. That is right.

Q. I do not think it is worth while to pursue this inquiry any further along this particular line—A. Very well.

*By Mr. Spencer:*

Q. During your cross-examination this morning, Mr. Saunders, a few questions occurred to me that I would like to ask you. You made the statement that the borrowings through the Finance Act were a second charge on the assets of a bank?—A. Yes.

Q. Then it would come after the notes, and before the Government deposits?—A. No, it is among the Government claims. First is the call of notes in circulation, and then the Dominion Government, and then the Provincial Governments, and fourth come the other claims.

Q. You mentioned that the Finance Act was being used a great deal a few years ago, and to-day it was being used little, comparatively speaking?—A. Yes.

Q. Can you tell me when it is used more, when the country is prosperous, or when we have adverse conditions?—A. It would be used more when the country is prosperous. In November, 1920, as I told you this morning, that was the peak of all the years. The banks had loans under the Finance Act amounting to \$123,000,000. If you will recall, Mr. Spencer, in 1920 everything was booming; it was after the war and there was inflation in prices and business was booming a little, which naturally required more money. The dollar was worth less, and it required more dollars to carry on business.

Q. That was my opinion. Then, Mr. Saunders, you would say that the banks find it profitable to borrow through the Finance Act?—A. I think they find it more useful in being able to meet business that is offered to them, when their own resources would not permit. They cannot find it very profitable, because they are so eager to get it back into our hands to save the five per cent interest rate.

Q. Otherwise, when business is booming, they are only too ready to make loans, and they deposit the securities with the Treasury Board?—A. Yes.

Q. You said that the banks made the most use of this privilege through having large legals for clearings?—A. Yes.

Q. Rather than placing the Dominion notes in the Gold Reserve and issuing their own notes against them I think the inference you left was that they used the most of them for clearings.—A. For both purposes, but in a great many cases just for bank clearings. That would be to save turning in their own small notes and taking them to the Clearing House to liquidate their liabilities.

Q. At the same time, in round figures, I believe we have about \$9,000,000 in the Gold Reserve and about \$50,000,000 in notes and paper?—A. Yes.

Q. Then would it not be more correct to call it a "gilded" reserve, rather than a Gold Reserve?—A. Call what a gilded reserve?

Q. The place we now call a Gold Reserve?—A. What is in a name, anyway?

Mr. McMASTER: "A rose by any other name would smell as sweet."

*By Mr. Spencer:*

Q. You mentioned in answer to a question this morning when the discussion turned on the subject of the Mint, that during the war there was too much money in circulation. What sort of money would that be?—A. During the

[Mr. J. C. Saunders.]



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war there was too much money in circulation? I hardly think I made that statement.

Q It was with reference to Mr. Shaw's question with regard to the Mint.—A. Yes; during the war there was not too much, because it was needed for the business, or it would not have been asked of us, but there was too much put in circulation for present-day requirements. We do not redeem silver; that is the trouble.

Q. It was silver you meant when you said that?—A. Too much silver, I think I said.

Q. How do you know there is too much silver money?—A. We know how much silver is issued.

Q. But how would you know when there was too much?—A. The banks complain, trying to get us to take it back.

Q. You mean the people would not use it, and put it back in the banks?—A. Surely, and the banks could not get it out.

Q. Have you, Mr Saunders, in your official position, anything to do with the Post Office Savings Bank?—A No. That is administered by the Post Office Department entirely..

Q. You would not like to give an opinion as to the policy of the Post Office Savings Bank?—A. No. I mentioned this morning or this afternoon that the Post Office was modifying its rules and regulations about withdrawals, so as to make it a little easier for the smaller depositors to withdraw than it has been hitherto.

Q. I think, in answering a question of Mr. Healy's, you said the notes of a private bank were no liability on depositors?—A. Yes. They are no direct liability on depositors.

Q. Suppose we decided in Canada to have a Government issue of notes only, and the only paper out was Government paper; when a bank went smash like the Home Bank; when their own notes out, their own private notes were out in circulation, would not the depositors be better off?—A. Not a bit. The bank would get these Dominion notes, they would have to give value out of their assets. It is the same relation; it does not matter whether they are Dominion notes or bank notes.

Q. But with a private issue of notes, is it not a fact that the notes are the first call on the assets of the bank?—A. Yes.

Q. And part of the assets of the bank are the depositors' accounts?—A. Yes, and others.

Q. And therefore the private notes of the bank are a call on depositors?—A. Yes.

Q. But if there were Government notes issued instead of private notes, they would not be a call on depositors?—A. I do not like the word depositors; it is a call on the assets.

Q. The responsibility would be on the Government?—A. The responsibility would be on the Government—.

Q. To meet the notes?—A. If they held Dominion legals or Dominion notes of the Government, that would be a good asset, because the Government would redeem them at once.

Q. Therefore, the depositors of a failed bank would be better off if we had a Government issue or monopoly of note issue than they are with a private issue?—A. Not at all. If they had Dominion notes in their possession and brought them in to us to redeem them, they would be reducing their assets by that much.

Q. Dominion notes would be a liability on the government and not on the bank?—A. Yes, but their assets have not been benefited at all.

[Mr. J. C. Saunders.]

*By Mr. McMaster:*

Q. But in the case of the issue of Government bank notes, would not the disappearance of the privilege which now goes to secure the notes of a private bank, would that not put the ordinary creditor on a better footing?—A. I do not think so. Not a bit. It is just a question of how the assets run.

Q. You would have the same assets as before, but they would be divided among all the creditors?—A. No.

*By Mr. Benoit:*

Q. Supposing you exchange dollar for dollar?—A. Yes, but you must take into consideration how they get hold of these Dominion notes. They must put up their assets, and when they redeem them they are just lowering their assets.

*By Mr. Spencer:*

Q. When a bank fails there are certain prior liens on the assets of that bank?—A. Yes.

Q. The first lien on the assets of the bank is the private notes?—A. Yes.

Q. Except that they call on the Note Circulation Redemption Fund, to what extent?—A. Provided the assets will not permit of the redemption of the notes. That is a protection to the man who holds notes of the bank in which he has no say. He is not a client of the bank and he must be protected in order that the notes of a Canadian bank may pass like gold.

Q. But to what extent can the holders of the notes of a failed bank call upon the Circulation Redemption Fund?—A. If the assets do not provide it, to the extent of the deficiency in the assets to meet the notes.

Q. At once?—A. The liquidator would make up how much he needed at present and he would call on that particular bank's own part of the deposit in the Circulation Redemption Fund. If that was not sufficient it would be taken out of the general fund and distributed pro rata to all the banks and handed over to him, and the other banks would have to immediately make up their quota again.

Q. Let me take you over that ground again. Is it not a fact that when a bank fails, the only call it has on the Note Circulation Redemption Fund is what it has paid into that fund, plus the interest?—A. It would depend upon the extent of the notes.

Q. I do not care how many notes are out. Before they come back on the other assets of the bank, I want the first call on the Note Circulation Redemption Fund.—A. Yes, they come and get it out of the Circulation Fund.

Q. To the extent of the amount they have paid in only, plus the interest, each bank? Suppose the Home Bank fails, as it has, and it has \$2,000,000 out in notes.—A. Yes.

Q. And it has paid \$100,000 into that fund. The only amount it can collect on at once is that \$100,000?—A. No, if the liquidators say, "We need at once \$500,000, \$100,000 of that bank and the rest from the other banks."

Q. That conflicts with evidence we have had before. Why did they not do it in the case of the Home Bank?—A. We have paid out everything the liquidators have called for from the Circulation Redemption Fund.

*By Mr. Irvine:*

Q. Why not pay out more?—A. You get the liquidators to make a demand upon it.

*By Mr. Spencer:*

Q. Your evidence then, does not coincide with the evidence given before. However, after they call on the Note Circulation Redemption Fund for a certain



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amount, the balance of the notes is a claim on the assets of the bank; do you admit that?—A. The balance of the notes.

Q. The balance of the notes. Suppose there is \$2,000,000 in notes. You have only to make good on these notes to the extent of the \$100,000 which that bank has in the Note Circulation Redemption Fund. These notes remaining are a first claim on the assets of the bank.—A. Yes, the whole \$2,000,000.

Q. And if, when all this is swept away, including the depositors' accounts, if there are any notes left over, you can go back under the note circulation redemption fund and get the balance. Is that a fact?—A. Well, hold on, I do not think I understand——

Q. I am taking you step by step, and I think I am correct.

Mr. Goop: Take the Home Bank case.

*By Mr. Spencer:*

Q. We will take the Home Bank. It had about \$2,000,000 out in notes?—

A. Yes.

Q. It had paid into the note circulation redemption fund about \$100,000, and after the Home Bank went smash, all the money they could call on from that fund was the amount paid in, plus possibly interest.—A. Well, in the first place, the liquidators have to realize on their quick assets at once to meet the notes. The bank would surely have some quick assets. They would take up as far as the quick assets of the bank would allow before they came on the circulation fund. In other words, the assets take care of the note circulation as far as they can and then the circulation redemption fund functions.

Q. Otherwise, if you follow the Bank Act closely, you will find that they are allowed to call on the note circulation redemption fund to the extent of the money they have paid in; then the notes are the first claim on the assets of the bank?—A. Yes.

Q. Then, after all these assets have been swept away, if there are still notes outstanding, they have the opportunity of going and getting these notes by calling on the balance in the note redemption fund?—A. The other banks will come to the rescue.

Q. Therefore, the balance of those private notes have a claim on the depositors' accounts prior to the depositors themselves.

The CHAIRMAN: What do you mean by private notes?

Mr. SPENCER: The banks' private notes.

WITNESS: They have the same amount as the assets of the bank.

*By Mr. Spencer:*

Q. I will take you over it again.

Some Hon. MEMBERS: No, no.

WITNESS: Mr. Spencer, I do not think you grasp——

Mr. McMASTER: Will you forgive me, Mr. Spencer, if I offer a suggestion? Suppose you ask the question, please Mr. Saunders tell us how bank notes are protected upon the insolvency of a bank, and let him tell us from which type of reserve the obligation is first met.

*By Mr. Spencer:*

Q. I would rather put it in another way. The notes are, I understand, the first lien on the assets of a bank?—A. Yes, the notes outstanding are the first lien on the assets of a bank.

Q. Consequently, Federal Government deposits or bills under the Finance Act are secondary?—A. Yes.

[Mr. J. C. Saunders.]

Q. And Provincial deposits, are, I understand, third? Is it a fact that a bank, like the Home Bank that has mortgaged all its buildings to a certain private corporation, that corporation has the fourth lien on the assets of a bank?—A. After any claims that the provinces have on a bank that would be the next or the fourth lien, if they are approved.

Q. And after that the depositors come in?—A. No, the depositors come in with the fourth.

Q. Where do the depositors come in?—A. After the provincial governments.

Q. Are they put on exactly the same parallel as secured creditors?—A. I do not know about that. If a man has a mortgage on a building, he has, I suppose, a better claim than one who has not a mortgage; I should think so.

Q. Otherwise, if he has a mortgage on buildings he would be what you call a secured creditor, and depositors are what you call unsecured creditors?—A. I cannot give an answer to that officially; that would be a matter for the liquidators and the men winding up the bank who know banking business.

Q. One more question. You made the statement to Mr. Good that since 1920 you were not quite satisfied with the returns sent in by the banks and you made one inquiry. You did not care to give the name or the date, and I am not going to ask you for them?—A. I said I was not quite satisfied with the bank.

Q. That one inquiry, I take it, was not well founded; I think you said so?—A. Yes.

Q. What about the cases of the Merchants Bank, the Home Bank, or the Banque Nationale? Did their balance sheets not show that there was something wrong?—A. No.

Q. Otherwise, all you had to go by was simply the figures sent to you? You had no means of telling that there was something risky in those banks, that there was a liability of the public suffering loss?—A. No, mind you, these were all under the old Act. I think the present Act has been improved very much last session. It gives us the opportunity to really grip the situation of a bank better than under the old law.

Q. Previous to last year, all those banks might have been carrying on business in a very haphazard way, and yet as they sent in their balance sheets they would look all right to you and you had no way of checking them up?—A. No, I had no way of checking up a bank. The Act provides that certain declarations should be made and we could not go behind that unless we knew.

Q. You were not able to find anything wrong with those banks in the statements they gave you?—A. No.

Q. Although the statements were wrong?—A. The statements seemed all right.

*By Mr. Irvine:*

Q. I just want to clear up one point about which I was not very sure. Mr. Saunders, do you look upon it as a fact that the Home Bank had a larger circulation of notes than its unimpaired capital warranted?—A. In view of the statement that has been made here that the capital was impaired, it must have; if its capital was badly impaired or wiped out, it certainly had.

Q. That is equivalent to saying that its circulation was illegal?—A. Surely.

Q. And that was the case in 1916, according to the report of the judge?—A. Did the judge say that the capital was impaired in 1916?

Mr. McMASTER: The judge says on page xxxix of his report that in 1916, "The total paid-up capital and reserve of the bank has been lost."

WITNESS: Then the notes in circulation were illegal.

[Mr. J. C. Saunders.]



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*By Mr. Irvine:*

Q. I understood you to say—you will correct me if I am wrong—that the circulation would not affect the relation of the assets of that bank to its liabilities?—A. To its liabilities, no.

Q. It would not affect it?—A. No.

Q. But if the circulation of the bank had been called in, it would have forced the winding up of the institution, would it not?—A. Perhaps you are missing this point, if the circulation had been called in, it would have had to be done at the expense of the assets.

Q. Never mind the assets; just answer my question. If the circulation of the bank had been called in, would that have involved the winding up of the institution? I imagine you could answer that yes or no?—A. Supposing the banks did not call in their circulation, and did not want any circulation, and yet their capital was all right—

Q. Let us come to the Home Bank; supposing that the Home Bank's circulation had been called in by some authority, or by the bank itself in 1916, would or would not that have implied the winding up of the institution?—A. Naturally, I think the institution would have to be wound up, yes.

Q. If the institution had been wound up by calling in its circulation in 1916, are you in agreement with the finding of the judge that the depositors would not have lost anything?—A. I do not know; he had the evidence, and he has made that finding.

Q. You will not quarrel with the evidence?—A. I must take that for granted. The difference is, I do not agree that the circulation had anything to do with it.

Q. I agree that the circulation has nothing to do with the assets and liabilities of a bank; you have said that. I am not interested in that question at all. The point is, if the circulation had been called in the bank would have been wound up?—A. Yes.

Q. If the bank had been wound up in 1916, there would not have been the same loss; as the judge says, no loss at all to the depositors?—A. I accept that, coming from the judge.

Q. Had you any power to call in or cause to call in the circulation of the Home Bank?—A. No, we did not know.

Q. If you had had information, had you any power to act?—A. Well, the power we have would be immediately to send in our auditor under section 56 (a), and if we found it in that state, we would have applied to the Bankers' Association to appoint a curator and put him in the bank, as was done in the Home Bank, because Mr. Barker was put in by the association.

Q. What excuse have you to offer for the department that the institution was not wound up in 1916?—A. There was no evidence before the department that anything was wrong.

Q. Therefore, despite the profound faith which you have expressed in the bankers, it is possible for them to have a larger circulation than their unimpaired capital would permit, without your knowing anything about it?—A. It is possible, because it has happened, but it should not happen. It would be only knavery that would do it.

Q. We all know it should not happen, but it may be happening right now?—A. I do not think so.

Mr. IRVINE: Thinking does not make it different, you see. It has been done.

[Mr. J. C. Saunders.]

*By Mr. W. F. Maclean:*

Q. We had under examination here an ex-Comptroller of the Treasury of the United States, and also an acting bank examiner in the United States. Did you read their evidence?—A. I heard Mr. Williams' evidence.

Q. Did you hear them say that if, as a bank examiner, he found there had been an illegal issue of currency, or that the bank could not meet its obligations, he would give them so many days to make good their condition as a bank, or else he would order them to close their doors. Do you think it would be a good action in the interests of the public if we had an officer of that kind in this country?—A. We have that power yet, Mr. Maclean, have we not?

Q. We did not exercise it in the Home Bank case?—A. We did not know.

Q. They have an officer in Washington and if he made an investigation and found things wrong and unless they were able to make good the assets of the bank, he would close their doors forthwith?—A. Yes.

Q. You heard that evidence?—A. Yes.

Q. If we had such an officer today in this country—

AN HON. MEMBER: We are going to get it.

MR. MACLEAN: Yes, and I want to give the Minister and our friend here credit for it. The point is there was an officer in the employ of the Government of the United States connection with the Treasury to take this instantaneous action when a bank was found to have exceeded its powers, or to have lost its assets, of making good those assets or the bank would be closed forthwith.

HON. MR. ROBB: Have they always had that option?

MR. W. F. MACLEAN: They have it now, and my friend is going to appoint an inspector. He said that we did not need to follow foreign organizations, and he is being forced to follow them.

THE CHAIRMAN: Order.

MR. W. F. MACLEAN: The Minister asked me a question. Call the Minister to order please.

THE CHAIRMAN: Would you kindly go on Mr. Maclean?

MR. W. F. MACLEAN: I am through with my examination.

*By Mr. Healy:*

Q. You say that the Department had no knowledge of the condition of the Home Bank in 1916?—A. No.

Q. Is the Minister of Finance part of the Department?—A. He is the head of the Department, but he has his own department by himself. As I told you this morning, any knowledge he may have does not necessarily come to me.

Q. I have your answer that he is part of the Department?—A. He is a very important part of it.

*By Mr. Good:*

Q. Mr. Saunders states, he gives it as his opinion, that if the circulation of bank notes had been called in, the bank would necessarily have been forced to wind up. I want to ask him whether or not it would be possible or likely for a bank to get along with Dominion notes if all its loan notes were replaced by Dominion notes?—A. The reason that a bank would have to close up if it called in its circulation is, we take for granted that it has to be called to comply with the Act because it has not any paid-up capital to stand behind it.

Q. It would be only a symptom of insolvency?—A. Yes.

*By Mr. Ward:*

Q. I think the witness said a few minutes ago that amendments that were added to the Bank Act last year would save the banks from themselves, so to

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speak, and protect the depositors. I would like him to define that, and tell us in how far did the amendments to the Bank Act protect the banks from themselves and protect the depositors?—A. You mean the merits of the present Act over the last Act.

Q. The amendments of last year?—A. I have the statement here but it would be a little lengthy if the Committee would like me to read it.

Q. Tell us briefly.—A. Well, there is the shareholders' audit which was amended and added to, as you all know, last year. That would be one merit of the present Bank Act over the other. Next to that I would put the returns.

*By Mr. Spencer:*

Q. Did not they always have a shareholders' audit?—A. It is altogether different in the present Act to what it was under the old Act. It was added to and enlarged, or restricted more; in fact, we have them pretty well choked to death by it.

*By Mr. Ward:*

Q. Is this new audit not subject to some amendment? What is the difference, so far as the public is concerned. How does it protect the public as against the old Act?—A. If you want to go into that question, it may be necessary to read what I have here, but it will take some time. If you want me to read the merits of the one over the other, I am willing to read them.

Q. I should have thought that the witness would be able to give us in a very few words how this new audit protects the public?—A. In the first place, under the old Act there needed to be only one auditor of a bank, and that auditor need not have been an experienced man, or even an accountant. In the Home Bank, they had a man who was neither an accountant nor, I should say, an experienced man. No experienced man would have allowed a bank to get into the condition it did. That could not happen under the present Act with two skilled accountants approved of by the Minister of Finance. It could only be done by their acting in collusion. They could not go through a bank like the Home Bank and not see what was wrong. Then according to the present Act they would have to make their report to the directors and to the general manager and make them liable to a knowledge of the condition of the bank. These two auditors are independent, one of the other. They must not be members of the same firm, and they alternate every year one goes out. That is a great addition to supervising the shareholders' audit compared with the previous Act under which they could elect any one.

*By Mr. W. F. Maclean:*

Q. But the inspector-general would be still better?—A. We hope so.  
Witness retired.

The Committee adjourned.

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

TUESDAY, June 17, 1924.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Mr. Vieu the Chairman, presiding.

The CHAIRMAN: When reading to the House yesterday the correspondence exchanged between the Clerk of the Committee and Mr. Weldon and Mr. Lee, I said

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"The House will note that Mr. Lee does not deny having made the declaration to the meeting, but denies only having made it to the press. As the *Citizen*, the *Toronto Globe* and several other newspapers contained the information in identical language I think that we can fairly assume that the declaration was made to the meeting of depositors. I am glad that the interpellation of my hon. friend gives me an opportunity of correcting the wrong impression given to the public. I do not believe that Mr. Lee intended wilfully to mislead the public; but the least that can be said, if he did make such a declaration, is that he should have taken the trouble of inquiring from the secretary of the executive committee as to the exact facts before making a statement which I consider unjust towards parliament and the committee."

Gentlemen, I may say that I had the pleasure of meeting Mr. Lee and Mr. Weldon and some other gentlemen who accompanied them this morning, and Mr. Lee told me that there was no such meeting and no such declaration made either to the press or to the Committee of the Home Bank depositors. Mr. Lee has requested me to give him an opportunity this morning to make a statement to the Committee in that respect. Mr. Lee is present, and I think it will be the pleasure of the committee to hear the statement that he has to make in respect to that matter. May I point out that we do not want to make more fuss about it than is necessary; but the question of the Home Bank depositors has a nation-wide aspect, and we do not want the public at large in Canada to believe that Parliament or this Committee is derelict in its duty of duly considering their interests, and the problem which is before Parliament to-day. The correspondence will show, I think, that the Committee has endeavoured to give the relief committee of the Home Bank depositors all possible consideration. I am glad to state to the Committee that Mr. Lee has declared there was no such meeting of depositors and that no such declaration was made.

MR. LEE: I came down here from Toronto to straighten this matter out. As I wired the Chairman, no such interview was given to the press and nothing that could be construed into such a statement. I believe there were some local meetings, but I say that there was no meeting of the National Committee held at which anything of this nature was said. As a matter of fact, I have been in communication with Mr. Mitchell, the former Chairman, and we knew all along that this Committee was going to hear us. I think it was only my duty to your Committee to come here from Toronto and make this explanation. Far be it from us to make any such statement when we know the facts to be otherwise.

THE CHAIRMAN: I think the question is closed to the satisfaction of all concerned. Mr. Ross, Secretary of the Bankers' Association wishes to make an explanation in regard to an answer which he gave to a question when he was before the Committee.

H. T. Ross recalled.

WITNESS: On page 334 of the proceedings a question was asked me by Mr. Healy.

"Q. Had \$2,000,000 of Dominion notes been in circulation by the Home Bank instead of \$2,000,000 of the Home Bank notes, there would not have been this loss?"

and I am credited with the answer—

A. "No, it would not have been lost."

[Mr. Henry T. Ross.]



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That answer is not a correct answer; it was given without consideration. Nothing was lost by the issue of notes either Home Bank notes or Dominion bank notes, and there would have been no difference to the depositors whether the Home Bank had issued \$2,000,000 of Dominion notes or \$2,000,000 of its own notes, for this reason: Had the bank issued \$2,000,000 of Dominion notes before its failure, it would have had to take \$2,000,000 out of its assets to buy the Dominion notes and get them. The only difference is that if it had issued \$2,000,000 of Dominion notes the money would have been taken out of the assets before the failure. Now, it has issued \$2,000,000 of its own notes and the money has to be taken out after the failure. There is no difference. One further remark, there is a little advantage to the depositors in the fact that its own notes were issued because the bank has had the use of the money in the interim; it has not had to pay the money out so early.

*By Mr. W. F. Maclean:*

Q. If there was an issue of Dominion notes and no provision was made to help the bank to get some advantage out of a note issue; if you could substitute Dominion notes for the right to issue the bank's own notes, the Dominion notes would be satisfactory to the public?—A. It would make this difference, as explained by Mr. Neill in his testimony; if Dominion notes were issued and became the sole circulating medium, the bank would have to take it out of its assets to buy the Dominion notes, and it would have that much less liquid capital with which to do business.

Q. The right to issue notes could be given to get the use of Dominion notes instead of the bank's own notes under the same conditions?—A. I do not think the Committee would favour giving notes to the banks, an obligation of the Government.

*By Mr. Irvine:*

Q. It would make no difference to depositors whether the notes were issued by the Dominion or by the banks?—A. Not a bit.

*By Mr. Good:*

Q. I would like to ask the witness, does he not recall that when Mr. Neill was under examination he distinctly stated the alternative proposition that a certain limited amount of Dominion notes be given to the banks free of charge and that above that they would have to pay?—A. I do not remember that.

Mr. GOOD: I do distinctly.

WITNESS: I have no recollection.

Witness retired.

The CHAIRMAN: We decided, I understand, at the last sitting that we would hear an officer of the Post Office Department in respect to the operation of the Post Office Savings Bank.

AUSTIN BILL called.

*By the Chairman:*

Q. Will you give your qualifications? You are an official of the Postmaster General's Department?—A. Yes.

Q. What is your office?—A. I am head of the revenue division.

Q. Of the Post Office Department?—A. Yes.

Q. Do you know about the organization and operation of the Post Office Savings Banks?—A. Yes, I have to deal with them.

[Mr. Henry T. Ross.]

Q. Are they under your direction?—A. No.

Q. Who is the director?—A. Mr. Fairweather is the superintendent under the financial superintendent, Mr. Glover.

Q. Will you please tell the Committee what the organization is, and give a general statement as to the operation of the Post Office Savings Banks?—A. Well, I do not know how far afield you wish me to go in answering that question. I did not come with any address prepared or with any notes. I was asked to come and answer any questions that the Committee might wish to ask. I may say that the Savings Bank Branch Department has to confine itself to the operations of the Post Office for the receiving of savings.

*By Mr. W. F. Maclean:*

Q. How many are there?—A. Thirteen hundred, between thirteen hundred and fourteen hundred.

Q. In all the provinces?—A. In all the provinces.

*By Mr. Sales:*

Q. How many post offices do you have altogether?—A. I have not the exact figures, but I think 13,000, of which about 5,500 are money order offices. At the end of March, 1923, which is the report I have before me, there were 12,228 post offices in operation at that time.

*By Mr. W. F. Maclean:*

Q. And how many money order offices?—A. 5,500.

Q. Money order transactions occur at 5,500?—A. They sell money orders and take savings bank deposits at between 1,300 and 1,400.

*By Mr. Sales:*

Q. Can you explain the limitation to that number?—A. Of the savings banks?

Q. That there are only one thousand odd savings banks as against 5,500 offices that do a money order business?—A. There may be two reasons. One is that they only do a savings business where it is needed. They may have ample banking facilities and there may be no need for a savings bank. That may be one reason. Another reason may be that the office might not be big enough, or there is no call for it because it is in a very small place where there might not be a call for money or for a savings business in that place.

*By Mr. W. F. Maclean:*

Q. How do you get a savings bank at a post office?—A. They would petition for it or make representations through a member or perhaps one member of the community might draw the attention of the inspector of that community to the need for it and he would make a report to the Department. The Department then decides, after looking over the business of the office and other things, whether a savings bank should be established at that post office.

Q. Does the postmaster get any remuneration for that business?—A. He gets one-quarter of one per cent, plus one-tenth of that on the deposits.

*By Mr. Sales:*

Q. Is the Post Office Department making any effort to push this business, or must it arise from the people themselves?—A. I would not say that. If an inspector finds a post office where there was a need for it, he would report to the Department that fact.

*By Mr. W. F. Maclean:*

Q. Is it the policy of the department to promote the public use of those post office savings banks?—A. If they see that a locality wishes to use it, they



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are willing to put it in, but I would not say that they are anxious to go out and compete with anybody else. I would not like to say that.

*By Mr. Sales:*

Q. What steps would they take to bring the savings banks to the attention of the public? Is there any advertising?—A. Yes, there has been advertising. There have been posters put in the post offices giving the information, and readers in the newspapers pointing out the advantages of using the post office savings banks.

*By the Chairman:*

Q. When was the system introduced?—A. I think in 1868, just after Confederation.

Q. 1868?—A. Yes, I think that was the year.

Q. Can you quote the statute?—A. No, not offhand. I do not think I have it in any of the papers I have here. I see Mr. Ross here; perhaps he might remember the statute.

Q. Was there any considerable change in the legislation respecting post office savings banks?—A. No, I do not remember any change except a change in the rate of interest at one time, a long time ago.

Q. The fundamental legislation is the same?—A. Yes, the objects were the same.

*By Mr. W. F. Maclean:*

Q. How do you compare with the British Post Office Savings Bank, or the American Post Office Savings Bank?—A. In which way?

Q. Are you as much up to date as they are?—A. We claim to be. Of course, the British and the American Savings Banks—in the American banks the rate of interest is not as high as I understand it.

Q. What is yours?—A. Ours is three. I am not giving that as information, but just as an impression.

*By Mr. Benoit:*

Q. What is the amount deposited in the Canadian Post Office savings banks?—A. About \$25,000,000, a little over \$25,000,000.

Q. Was there an increase this last year?—A. Yes, there was an increase in the last year.

Q. An increase of how much?—A. It increased a little short of \$3,000,000 during the year.

Q. Owing to the Home Bank?—A. Well—

*By Mr. W. F. Maclean:*

Q. What is the rate in the British Post Office Savings Bank?—A. I have not that here.

Q. What is the limit of your deposits—the smallest and the largest?—A. You can put in one dollar and you can deposit up to \$5,000.

*By Mr. Spencer:*

Q. How much can you put in in one year?—A. Within one year, I think it is \$2,000. As I say, I am not charged with the operation of the savings banks; I am charged with the accounting. But I can correct these figures. I am just saying \$2,000 from memory.

*By Mr. W. F. Maclean:*

Q. How does a man withdraw his money? What does he have to go through?—A. He makes an application to the local post office.

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Q. He signs something?—A. He signs an application, yes, and sends in his pass-book to the head office for the withdrawal of over \$25. Under \$25, under an arrangement made last year, he can make a withdrawal at the local post office and have it checked up there. Above that amount, the pass-book has to be sent to Ottawa, where the account is verified, and the cheque is sent to the postmaster, who delivers it to the depositor.

Q. It takes how long to do that in Ontario?—A. If it is one day's mail, it would take one day to come up and one day to go back. It would be dealt with here immediately.

Q. It is a two days' proposition anyway?—A. Yes.

Q. And in British Columbia it would be a ten-day or twelve-day proposition?—A. Yes.

*By Mr. Millar:*

Q. Are these post office savings banks ever withdrawn because of competition with the chartered banks?—A. I know of no withdrawals of that kind. They might be withdrawn because the depositors may have taken out their money and put it in some other place.

*By Mr. Garland:*

Q. Is it regarded by the department as entering into competition with the chartered banks if you establish a post office savings bank in a small town?—A. No, it is not regarded as competition at all.

Q. That does not enter into the policy of the department?—A. No, no, they would not regard it as entering into competition to put in a savings bank where there was a chartered bank.

Q. What are the considerations that govern the establishment of post office savings branches?—A. Generally speaking, the need of the community for it shown in different ways. That is, it may be shown by the fact that it is asked for. It may be shown by the fact that the inspector of the Department sees that it is needed.

Q. In the event of a district deciding through, we will say, its municipal representatives or a town council or some other representative body of citizens that it should have a post office savings bank established in that district, would the post office authorities accede to that request?—A. They would most likely accede to it.

Q. If they did not, what consideration would they weigh? How does your Department decide whether to establish a post office savings branch or not?—A. Well, the first thing you would look at would be the size of the community asking for it. The second would be—and that would be wrapped up with the first proposition—the ability of the present postmaster to do banking business. He might not have been chosen because of his ability to do banking business. I think these would be about the only thing that the Department would have to decide, apart from the representations made by petitioners or by the inspector.

Q. Have any representations ever been made to your Department by the chartered banks or any protest against competition, or suggesting withdrawal?—A. No, I know of none. If they have been made, they have been made perhaps to the Minister who has not told the officials of the Department. I have known of none where the banks have suggested that we withdraw.

Q. Have you had any protests or suggestions?—A. No, I know of no protests.

Q. No protests at all?—A. I know of none.

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*By Mr. Sales:*

Q. Would you see that correspondence in your capacity as accountant? Would that come before you at all?—A. It might not come before me, but a good deal of it would. That is, it would affect the accounts of the office, and probably be on the general file.

Mr. SALES: The witness said he was not responsible for the operation of the savings branches, that he is the accountant.

*By Mr. Garland:*

Q. Has the Department closed any post office savings banks in the last year?—A. They are continually being closed down and opened and re-opened.

Q. What is the most common ground on which you close your branches?—A. Common ground?

Q. Yes.—A. One of the grounds would be perhaps a change of postmaster and that they felt that perhaps that would be better kept closed until we found out how the new postmaster was acting. Of course, that would be in a small place, not in a large place. In that case there is no doubt that the postmaster is not always so closely in touch personally with the office in a large place. I am speaking of the small places.

Q. In a case of that kind would not the closing up cause a good deal of dissatisfaction among those who had money deposited in the local savings branch? You suggest that it is decided sometimes on a change of the postmaster?—A. Possibly, yes.

Q. Is that not likely to make it rather inconvenient to the depositors in that place?—A. You must remember that this would take place in a town of very small size. In the larger places the order of procedure is more set. The postmaster has competent assistants to carry on for him.

*By Mr. Irvine:*

Q. Would you suggest that in the appointment of postmasters the authorities do not take into consideration his possible capacity as a banker?—A. That would be in an appointment of a postmaster to an office that was not a savings bank office. A banker—you must use the term very guardedly, because he is not discounting notes or anything like that.

*By Mr. Garland:*

Q. You mentioned that \$25,000,000. was the total amount now on deposit?—A. Yes.

Q. Do you not think that that is a very small amount for between 1,300 and 1,400 post office savings banks in Canada?—A. It is.

Q. Do you not think that a policy could be established to extend the influence of the post office savings bank so that we would have greater deposits than that?—A. Well, if it were desired, you could do lots of things like that.

Q. Do you think it is desirable?—A. That is a point that would take up a whole day's discussion.

Q. I am simply asking you for your opinion as an expert in the Department? Do you think it is desirable that the post office savings bank business should be extended in this country?—A. You are asking my opinion, personally. I think that the Post Office has no reason to go into competition with any existing means of giving service, but to supplement any service that is given at present.

Q. You have just told me that there has never been any protest on the part of any representative financial institution regarding possible competition?—A. Regarding possible competition, yes, so far as I know.

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Q. If there has been no protest, why do you make that suggestion, that it is not the policy to go into competition, if no protest has been registered?—A. I am just reading into the thing what has been the policy since the start. It was started as a thrift scheme, you know.

Q. It is the policy of the Department not to compete with any other institution?—A. I would say that that was the foundation of the whole savings bank scheme from the start.

Q. And you do not think it desirable to extend post office savings bank business?—A. I would not say that because we are ready to extend it when we see the need for it and it is asked for.

Q. Supposing that a town in Western Canada had a bank at the present time performing the services that are usually performed; supposing that in that district a demand arose for the establishment of a post office savings bank where the people wanted to put their money in a place where their deposit would be guaranteed; is it probable that you would establish it there?—A. Oh, yes.

*By Mr. W. F. Maclean:*

Q. You regard this as a public service, this post office savings bank?—A. Yes.

Q. And you as an official of the Department have no objection to extending that service?—A. Not at all.

Q. What objection have you to marking cheques if it was to increase your usefulness to the public so that they could get their money right away and pay their debts, instead of having to send to Ottawa?—A. Do you mean that the depositor should draw a cheque himself on the savings bank and have it marked by some official of the Department?

Q. At the office?—A. By the postmaster?

Q. Yes.—A. Well now, I said a few minutes ago that the idea of the post office savings bank was a thrift scheme.

Q. It is a public service?—A. The accent is on the savings rather than on the bank. I said also that when we choose postmasters, they are chosen mainly to do postal business. When you come to cashing cheques and keeping individual accounts, you are adding to the complexity of a postmaster's duty; it would be a big step for us to go in for keeping individual accounts in post offices, and for a postmaster to take those cheques and mark them and pass them out as currency among the people, for that is what they will become. It is a step that the Post Office Department has been very slow in taking, because it is to a certain extent a more or less risky step.

MR. HUGHES: Do you mean, Mr. Maclean, that the cheques would be cashed at the post office bank?

MR. W. F. MACLEAN: I want to facilitate the getting of the money. I would want him to get his cheque marked and get his money and be able to pay his debts with it.

*By Mr. W. F. Maclean:*

Q. Is the Postmaster General in town?—A. I have not seen him.

MR. MACLEAN: I understand he is in town and I would like to have him here. I am told that he has a policy as to extending these banks, and I would move that we call the Postmaster General here and have him state his policy. I think he wants to unfold it.

*By Mr. Hanson:*

Q. This would involve the keeping of a set of books in the post offices?—A. Individual accounts.

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Q. And in a town of considerable importance that would be a very large undertaking, would it not?—A. Yes.

Q. And would involve a great deal of expense upon the present system?—A. Yes.

Q. And a great deal of responsibility on the post office officials as well as on the postmasters?—A. And a great deal of suspicion, because everybody is suspicious as to what the postmaster knows about him. They do not mind the banks knowing.

*By Mr. McKay:*

Q. Do any savings banks exist where there are no post offices?—A. No, none of ours.

*By Mr. Hughes:*

Q. About the extension of the post office savings system to the marking of cheques, is that not rather a matter of policy for the Government than for an official to give?—A. Well, I was not giving any opinion. If I did that—

*By Mr. Spencer:*

Q. With regard to the answer you gave to Mr. Hanson you said that if you enlarged the work of the post office savings branches it would make more work?—A. Yes.

Q. You would have to have extra book-keeping, but some man could do it?—A. No, some men would not do it.

Q. If it involved more than one man's work, you could have another man?—A. There would be the same amount of work to be done. We take it that it is so, although it is distributed.

Q. I take it that the Government, through taking money from the post office savings banks, can make a profit on the transaction?—A. That is another question, about the profit.

Q. You do not think they make a profit?—A. They borrow the money for three per cent, and you can figure it out.

Q. And they pay five and a quarter?—A. Three per cent, plus expenses.

Q. You think that they should make a profit on it?—A. They should, yes.

Q. Therefore, the more business they do through the post office savings, the more profit they could make; and therefore, so far as extra service is concerned, it would not cut any figure at all?—A. You mean the expense of extra service? I was not thinking of that at all.

Q. The more business the post office savings banks do the better for the Government, and the more money the Government would make in profits. You have admitted to me that they make a profit, have you not?—A. I gave you some figures and you drew the inference that they had a profit.

Q. Does the Government make any profit from the deposits received through the post office savings banks?—A. I suppose that any one would say that if any person borrowed at three per cent, and if the expenses of borrowing were not high, he would make a profit, if they had not to borrow the money at a greater rate.

Q. If the Government makes a profit on the small amount it collects, it would have a chance of making more profit on a larger amount. Is that a fact?—A. That seems good arithmetic.

Q. You made the statement that an individual is allowed to place in the post office savings bank an amount equal to \$1,500 a year?—A. \$2,000. I said I did not have the figures, but we will take it at that.

Q. It used to be \$1,500; it may have been extended. Why is this limit placed on the amount?—A. I suppose we have to go back to the very idea that

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the savings bank was established to encourage thrift and to give a place as a substitute for the old stocking, a place to put a man's savings in and not to be withdrawn rapidly, and the idea was, I suppose, that they did not want to go into carrying big accounts but that it would just be for the small depositors, depositors with small amounts. That was the idea of the thing, a thrift scheme.

Q. Considering that the Government is continually wanting money, is there any reason why there should be a limit placed on the amount?—A. That is a question that really takes in policy.

Q. You would give the same answer, I suppose, in regard to the limit of \$5,000 to any one individual depositor?—A. Yes.

Q. Do you know what the policy of the post office department is in that respect?—A. I do not know that it has ever been proclaimed.

Q. You would not like to give a personal opinion as to whether it would be a good or a bad thing?—A. I do not think it would be worth anything if I did.

Mr. HANSON: Is it fair to the witness to ask these questions?

Mr. SPENCER: He has the opportunity of declining to answer.

*By Mr. Spencer:*

Q. What percentage of interest do the post office savings banks pay?—A. Three.

Q. Did they ever pay any more?—A. Three and a half at one time, a good many years ago.

Q. Did they pay prior to 1897 four per cent?—A. No, three and a half, I think, before 1897.

Q. You are not quite sure of that?—A. No, I do not have the figures, but that is my recollection of it, three and a half.

Q. I think it was four. Do you know why it was reduced to three per cent?—A. Money was getting cheaper at the time it was reduced. Of course it was before my day, but I am old enough to remember that money got considerably cheaper and more loans were floated.

Q. You do not know that any influence was brought to bear so that the post office savings banks would not interfere with private institutions?—A. I do not think there is any record of that.

Q. What is the Post Office Department doing with the money it collects?—A. It is paid over to the Finance Department, and it goes into the Consolidated Revenue Account, the same as any other money that comes in.

Q. It is used for Government purposes?—A. Yes.

Q. That strengthens my argument; the more money that the Government can collect from the post office savings, the more money it could make, because I understand from the Minister of Finance that they are paying five and a quarter on Treasury bills. Do they place this money in the various banks for the time being?—A. No, it goes into the Finance Department. A lot of it goes into the general fund or wherever that money goes that comes in. It is not ear-marked after it reaches the Department.

Q. Is it not deposited in the Government's name in the various banks?—A. No, there is nothing to distinguish it from any other dollars that come in.

*By Mr. Hanson:*

Q. It goes into Consolidated Revenue?—A. Consolidated Revenue.

*By Mr. W. F. Maclean:*

Q. And then into some bank?—A. There is no savings bank accounts in any bank.

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*By the Chairman:*

Q. The balance of the Consolidated fund is always in a bank?—A. Yes.

*By Mr. Spencer:*

Q. It is not loaned to the banks?—A. It is not loaned to the banks.

Q. The Government uses it for its own purpose. You mentioned, I think, to Mr. Garland that if a locality wanted a post office savings branch at a post office at any point, even if a bank was in that locality, they would have no difficulty in getting it?—A. There would be no difficulty if it was needed; the existence of the other bank would not decide it.

Q. I may say that I know of a case where a request was made for a post office savings branch. The postmaster was perfectly willing—he was a very able man indeed—but the answer came back that there was no opening there because the bank at that particular place had decided not to go. I would like to know whether you know anything about that?—A. Can you give me the name of the office? I would like to take a note of it.

Mr. SPENCER: Egerton, Alberta.

*By Mr. Spencer:*

Q. I was also told that one of the reasons was that it was not the policy of the Government to encourage the opening of saving banks at the present time? You do not know that?—A. I did not know that that was the policy of the Government. This is a special case.

*By Mr. W. F. Maclean:*

Q. You know that there are other Government savings banks besides the post office savings banks?—A. There are a few.

Q. Where are they?—A. Dominion Government? Mainly in the Maritime provinces.

Q. Do you keep their accounts?—A. No, they are kept by the Finance Department.

Q. You do not know that the American Government is now paying, I think, four and a half per cent?—A. On savings?

Q. On deposits?—A. No.

Q. Under the National Reserve Bank System.

*By Mr. Millar:*

Q. In all our papers we find the chartered banks advertising. In connection with the post office savings banks, what does the Government do to bring to the attention of the people the facilities that are available? I am under the impression that there are a number who do not know even that these facilities are available to them; I doubt whether they know that there are such savings banks in their locality. What does the Government do to bring these facilities to the attention of those people?—A. They put posters in the post offices and readers in the papers, and in their postal bulletins. These go out and are sometimes received by the public, and sometimes they are put up in the post offices. There are notices about the post office savings banks and their advantages. The weekly bulletin of the Post Office Department is hung up in all post offices, and it goes to a number of people.

*By Mr. Hughes:*

Q. You have been asked questions along the lines of further development and extension of the post office savings system. Providing that the Government decided to extend the system and open more post office savings banks, to enlarge the facilities and advertise for deposits, and in that way obtain a considerable

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portion of the liquid capital of the country, have you ever thought of what the effect would be upon the business and industrial communities?—A. It has been—

Q. Have you given any thought to the effect of such a policy?—A. I have thought of it.

Q. And what is your conclusion?—A. My personal conclusion?

Q. Official or personal?—A. Officially, I have never been called upon to give an answer.

Q. Personal then?—A. Personally, I should think that if the Government got hold of the money in trade that goes into the banks, I think it would be a little inconvenient to the country.

Q. The liquid capital that is now used in the commercial and industrial life of the nation, if that was taken by the Government for Government purposes, what in your opinion would be the effect on the country?—A. That is a pretty big question.

Q. I know it is a big question?—A. You can imagine what would be the effect at any time if you take a water supply from its ordinary channels and put it into a new channel; the new channel may be the best channel for it to run in, but it would be inconvenient—

Q. The new channel would be inconvenient?—A. It might be the best channel to run in, but it would be inconvenient to take it out of the old channel.

Q. Do you say that it would be the best channel by absorbing it?—A. Your question was what would be the effect?

Q. On the industrial and commercial life of the country?

Mr. W. F. MACLEAN: And on the banks.

*By Mr. Hughes:*

Q. I will include that, on the banks and on the industrial and commercial life of the country.

*By Mr. Sales:*

Q. There would not be any less money in the world, would there?—A. I do not suppose there would be.

*By Mr. Coote:*

Q. Are you aware that one of the chief aims of this Committee is to safeguard the interests of depositors generally?—A. I suppose so.

Q. You are not sure?—A. I was not told that, but I suppose that would be the aim of any Committee of the House.

Q. Have you ever known of any loss to any depositor in the post office savings banks? Would it be possible for a depositor to lose his deposit in the post office savings bank?—A. I cannot see how he could lose it, because the Government would be responsible for the action of its employees, and if there is any mis-appropriation of accounts, it would be made good to him.

Q. Just a question or two with regard to the operation of the post office savings bank. In case the depositor wished to withdraw up to \$25, would you explain to the Committee just how he gets his money?—A. He goes to the local post office where he has deposited his money, where his pass-book shows the stamp of his deposit; he presents that pass-book to the postmaster, and says he wishes \$25 or an amount up to that, and the postmaster, having looked over his book and seen what the balance is to his credit pays him over the \$25. This is a mere convenience to the public recently in order to popularize the scheme.

Q. What does the postmaster do with the depositor's pass-book?—A. The postmaster would put in an entry there, a notation of the withdrawal, and he

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would report the matter at once to Ottawa where the man's account is kept, and he would be charged with the \$25 or whatever the amount is, at Ottawa.

*By Mr. W. F. Maclean:*

Q. He has to send to Ottawa?—A. This is not a withdrawal from Ottawa, this is a local withdrawal that he is speaking of.

*By Mr. Coote:*

Q. How many withdrawals of this kind would he be allowed to make? Is there any limit?—A. He would not be allowed, I think, to make more than one a day. The idea is to limit the withdrawal to \$25. If a man made a withdrawal of \$25 in the morning, and came back in the afternoon for another \$25, he would be considered by the postmaster—I do not think the case has arisen, but if it did arise, the postmaster would say "You are really violating the intent of this regulation."

Q. Is there anything in the regulation which states that he cannot withdraw twice in a day?—A. I do not think there is, but I think that is a thing which is left to the interpretation of the man who is administering the work.

Q. Do you see any real objection to a proposal to increase this amount which you may withdraw at the local office?—A. Under present conditions, there would be because this amount of \$25—the Government is willing to take a chance up to \$25 but there must always be a certain element of chance when the withdrawal is made at a point where the account is not kept.

Q. What is the limit to the amount of a money order that may be issued at that office?—A. One hundred dollars.

Q. Then what objection would there be to placing the limit at \$100 in this regard? Would there be any more reason for the Department taking a chance?—A. In the case of a money order, you must remember that they get \$100 and issue an order on any post office up to another \$100. That cannot be duplicated in any way except by a clear case of fraud and of course we will except that. It cannot be duplicated, and I think there is a perfect check on the transaction from the moment it comes in until it is paid out. There is not under the present scheme a perfect check on withdrawals. It is a transaction upon which the department must take a little risk.

Q. What would be the objection to increasing the amount which a man may deposit in a post office savings bank? You understand that we are considering measures which would tend to increase the safety of depositors. What is the objection to increasing that amount, or why should there be any objection?—A. There is no objection that I can see. Some one has asked that the Postmaster General appear before the Committee and whatever the objection may be, it would be better for him to give an answer.

Q. As an employee of the department, what do you think the objection would be?—A. None from a borrowing standpoint as long as we kept the accounts here in Ottawa. If you kept local accounts, as has been suggested—

*By Mr. W. F. Maclean:*

Q. Is there a local ledger?—A. No, there is no local ledger.

*By Mr. Coote:*

Q. Supposing there is no local ledger, can you tell the Committee what difficulty there would be in the way of operation?—A. There would be no more difficulty in handling a \$10,000 account than a \$5,000 account.

[Mr. Austin Bill.]

*By Mr. Carmichael:*

Q. I would like to be clear on one point. The rate that is paid is three per cent, and I understand you to say that the cost of administering was one quarter of one per cent, plus one-tenth?—A. That is a commission paid to the postmaster.

Q. That one-tenth would be added to one quarter of one per cent?—A. Yes.

Q. Making 3.35?—A. That would not be the cost. That is only a commission on the deposits.

Q. What would represent the total cost over and above that?—A. We regard one-half per cent as the cost of administration at the present time.

Q. That is, three and a half per cent represents the total cost to the Government on the \$25,000,000 of which they have the use, and the Government pays five and a quarter per cent. In order to extend the facilities for post office deposits, what would your opinion be in regard to paying say four per cent for deposits? Would not that be a step towards extending the system and bringing in money for use by the Government at a cheaper rate than they are at present paying?—A. Of course, I think that is a question that should really be answered by the Finance Department, because they are the borrowing Department. We only offer facilities for depositors.

Q. I will not press that question. In regard to the point raised by Mr. Hughes as to the effect on the business of the country by all this money going into the hands of the Government, is it not a fact that when this money goes into the hands of the Government it is not put in a big box and locked up? Does it not go to build harbours and docks and so on?—It is not put in a big chest and locked up?—A. No.

Q. It is circulated through the country just as if it went into a bank?—A. Certainly.

Q. The money is kept in circulation? Therefore, it would seem to me that the best way of extending the post office savings business would be to increase the rate say to three and a half or possibly four per cent, and then there would be a greater supply of money placed on deposit for the use of the Government at a cheaper rate than they are paying now?—A. I was not asked a question regarding that.

*By Mr. Garland:*

Q. Continuing that same point, I would like the witness to tell us the process followed. The post office savings bank in a town, East or West, takes in deposits, thrift savings you call them, up to \$2,000 for one year with a limit of \$5,000. What happens to that money taken on deposit? What does the local postmaster do with it?—A. Well, if he has no use for it for money orders or anything over his counter, it goes to some bank.

Q. In other words, it is again available for loaning by the bank?—A. No, the banker sends a draft to Ottawa and we have the money transferred to the Government account here.

Q. Do you have it transferred right away?—A. As soon as we can get it transferred, as soon as the draft gets here.

Q. So there is a complete transference of the people's savings to Ottawa from all parts of the Dominion?—A. Yes, except what is not needed for local purposes. If there are money orders to be cashed at that place, the postmaster would use that money.

Q. What is your regulation in that regard? What amount is kept on deposit in the local bank?—A. There is nothing kept there except what he may see need for to cash orders.

[Mr. Austin Bill.]



## APPENDIX No. 1

Q. It is left entirely to the local postmaster?—A. He is working under a regulation.

Q. What is the regulation?—A. Twenty-five dollars is supposed to be his reserve ordinarily; that may be increased at any office where we see need for it.

Q. When it comes to Ottawa where is the money put then?—A. We get the draft in the Post Office Department just the same as any other draft, only it is on a special form, and we send it to the Finance Department, and the Finance Department transfer their money to the Bank of Montreal.

Q. Exactly. And supposing one of these banks failed, what would happen to the deposit?—A. If one of the banks failed?

Q. Yes, any bank in which the Department of Finance has these deposits representing the savings of the people?—A. They are not kept, the savings of the people, on deposit as such, you know.

Q. I quite understand that, but nevertheless they are in effect the savings of the people. You have taken them in a branch of the savings department and transferred them by draft to Ottawa where they are transferred to the Department of Finance and then to one of the chartered banks of the Dominion. Is that not the process?—A. Yes.

Q. Mind you, I am not suggesting that any of these banks are going to fail, but supposing a horrible accident happened and one of them did fail, what would happen to that money?—A. We are speaking now, not of savings bank money, but of any Government balance that is in the bank.

Q. That is what it becomes, exactly, a Government balance?—A. You people know more about that than I do, but I thought there was a preferred claim.

Q. You know there is one, do you not?—A. I have never studied the question, I know from general information.

Mr. GARLAND: It is an indirect way of guaranteeing deposits.

The CHAIRMAN: No, I think the Committee quite understands that when the Government has deposited money in the banks they have a privileged claim for the deposits that the Government have in the bank.

Mr. GARLAND: Which are the deposits of the people.

The CHAIRMAN: The guarantee of the Government to the people is a guarantee by the Post Office Department. It is not that the Government has a privileged claim for their balance in the bank and that that gives an additional guarantee to depositors. The depositor in the postal savings banks has a guarantee from the Government on their deposits. The Government deposits that money in the course of their banking business, and if there is a balance left to their credit in a bank, and if that bank should fail the Government have a privileged claim.

Mr. GARLAND: Exactly.

WITNESS: I may say that the Government guarantee on savings banks' deposits is ten per cent of the gold reserve. That has to be held in the Finance Department.

*By Mr. Garland:*

Q. Just explain that clearly?—A. Under the Gold Reserve Act, I do not know that I am quoting the Act rightly, they hold ten per cent. For every ten dollars of the savings bank deposits there is one dollar held in gold in the Finance Department.

[Mr. Austin Bill.]

Q. So that when the amount on deposit increased by \$3,000,000 during the last year, you had to increase your deposit under the Gold Reserve?—A. By \$300,000.

*By Mr. Good:*

Q. I would like to know the procedure. When a customer of the post office savings bank wants money to a greater amount than \$25, he makes application to the local postmaster, and the local postmaster forwards his application with the pass-book to Ottawa?—A. Yes.

Q. In what form is the money returned?—A. In the form of a cheque.

Q. Where does the customer cash the cheque if he wishes to cash it, at a local bank?—A. At a local bank, or the postmaster will possibly oblige him.

*By Mr. Sales:*

Q. At par?—A. At par, yes.

Mr. W. F. MACLEAN: Would the witness supply this Committee with these blank forms? As there is no local ledger, he cannot give us a copy of that, but I would like him to give us any printed forms in connection with the operation of the savings banks.

The CHAIRMAN: All forms that are at the disposal of depositors?

Mr. W. F. MACLEAN: Yes.

WITNESS: You want the forms used for the withdrawal of money?

Mr. W. F. MACLEAN: Anything; a copy of the pass-book and all the forms.

WITNESS: All forms used in connection with the post office savings business?

Mr. W. F. MACLEAN: Yes, and all the regulations.

The CHAIRMAN: You can produce these as an exhibit.

*By Mr. Spencer:*

Q. All money collected through the post office savings banks, except a small amount that is held back as a safety balance, goes to the Consolidated Revenue Fund of the Government?—A. I qualified that by saying what is needed at the post office for the payment of money orders or for other payments.

Q. I admit that. The Consolidated Revenue Fund of the Government is kept in the various banks. The drawn money goes back to the banks; there is no other place to keep it, and the Government keeps its accounts in the banks. There are two points; one is that there is only four per cent of the credit in Canada in the shape of money. Now, the credit of those banks is not kept separate. The banks make their loans on security and all the money that has been collected in this small way eventually goes through the Consolidated Fund of the Government and back into the banks. That is a fact, is it not?—A. When you say "back into the banks," it is not in the bank on deposit; it is in the bank for use.

Witness retired.

Mr. W. F. MACLEAN: I move that we ask the Postmaster General to appear before the Committee.

The CHAIRMAN: I will let the Committee know at the next sitting whether that is possible or not.

The Committee adjourned.



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HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

# BANKING AND COMMERCE

Consideration of Improvement of the  
Banking System of Canada

SESSION 1928

PROCEEDINGS AND EVIDENCE

*Printed by Order of Parliament*



OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1023





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## MEMBERS OF THE COMMITTEE

F. W. HAY, *Chairman*

and

Messieurs

Allan, H.,	Ladner, L. J.,
Bennett, Hon. R. B.,	Lang, M.,
Benoit, A. J.,	McLean, M. (Melfort),
Bird, T. W.,	McPhee, G. W.,
Black, Hon. W. A. (Halifax),	McRae, A. D.,
Bock, W. G.,	Matthews, R. C.,
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Brown, J. L.,	Perley, Sir George,
Casgrain, P. F.,	Robb, Hon. J. A.,
Casselman, A. C.,	Robinson, S. C.,
Cayley, T. M.,	Robitaille, C.,
Chaplin, Hon. J. D.,	Ross, J. G. (Moose Jaw),
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Drayton, Sir Henry,	Sanderson, F. G.,
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Hanson, R. B.,	Vallance, J.,
Harris, J. H.,	Ward, W. J.,
Hepburn, M. F.,	Woodsworth, J. S.,
Irvine, W.,	Young, E. J. (Weyburn).
Jacobs, S. W.,	

J. T. DUN,

*Clerk of the Committee.*



## ORDER OF REFERENCE

*(With respect only to consideration of improvement of the banking system of Canada)*

HOUSE OF COMMONS,

MONDAY, 13th February, 1928.

*Resolved*,—That the following members do compose the Select Standing Committee on Banking and Commerce:—

Messieurs: Allan, Bennett, Benoit, Bird, Black, (*Halifax*), Bock, Bothwell, Brown, Casgrain, Casselman, Cayley, Chaplin, Clark, Donnelly, Drayton, (Sir Henry), Ernst, Fafard, Geary, Gervais, Guérin, Hanson, Harris, Hay, Hepburn, Irvine, Jacobs, Ladner, Lang, McLean (*Melfort*), McMillan, McPhee, McRae, Matthews, Odette, Perley (Sir George), Robb, Robinson, Robitaille, Ross (*Moose Jaw*), Rutherford, Ryckman, Smith (*Stormont*), Smoke, Spencer, Steedsman, Stevens, Vallance, Ward, Woodsworth, Young (*Weyburn*).—50.

(Quorum 15.)

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

*Ordered*,—That the Select Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

MONDAY, 13th February, 1928.

*Resolved*,—That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon.

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

WEDNESDAY, 15th February, 1928.

*Ordered*,—That the name of Mr. Sanderson be substituted for that of Mr. McMillan on the Select Standing Committee on Banking and Commerce.

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

WEDNESDAY, 29th February, 1928.

*Ordered*,—That 750 copies in English and 250 copies in French of the proceedings and evidence which may be taken before the Select Standing Committee on Banking and Commerce respecting consideration of the improvement of the banking system of Canada, be printed from day to day, for the use of the Committee and of the House of Commons, and that Standing Order 64 be suspended in connection therewith.

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

THURSDAY, March 29, 1928.

*Ordered*,—That 1,500 copies in English and 500 copies in French of the evidence taken on Wednesday, 28th instant, on which occasion Mr. W. P. G. Harding of Boston, Mass., U.S.A., was before the said Committee, be printed for the use of the Members of the House of Commons, and that Standing Order 64 be suspended in relation thereto.

*Attest.*

ARTHUR BEAUCHESNE,

*Clerk of the House.*

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## REPORTS OF THE COMMITTEE

*(With respect only to consideration of improvement of the banking system of Canada)*

### FIRST REPORT

WEDNESDAY, 29th February, 1928.

The Select Standing Committee on Banking and Commerce beg leave to present the following as their first report:

Your Committee recommend that 750 copies in English and 250 copies in French of their proceedings and evidence which may be taken respecting consideration of the improvement of the banking system of Canada be printed from day to day, for the use of the Committee and of the House of Commons, and that Rule 64 be suspended in connection therewith.

All of which is respectfully submitted.

F. W. HAY,

*Chairman.*

*(Presented, 29th February, 1928. Concurred in, same day.)*



### THIRD REPORT

THURSDAY, March 29, 1928.

The Select Standing Committee on Banking and Commerce beg leave to present the following as their third report:—

Your Committee recommend that 1,500 copies in English and 500 copies in French of the evidence taken on Wednesday, 28th instant, on which occasion Mr. W. P. G. Harding of Boston, Mass., U.S.A., was before the Committee, be printed for the use of the Members of the House of Commons, and that Standing Order No. 64 be suspended in relation thereto.

All of which is respectfully submitted.

F. W. HAY,  
*Chairman.*

*(Presented, 29th March. Concurred in, same day.)*

### SEVENTH REPORT

The Select Standing Committee on Banking and Commerce beg leave to present the following as their seventh report:—

Consideration has been given to a Resolution of the House of Commons, dated February 13, 1928, and referred to this Committee, viz:—

“That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon.”

Five sessions of the Committee were held during which this reference was under consideration.

Witnesses were examined, including O. S. Tompkins, Inspector-General of Banks, G. W. Hyndman, Assistant Deputy Minister of Finance; A. E. Darby, Director of Economic Research of the Canadian Council of Agriculture; A. E. Phipps, President of the Canadian Bankers' Association; The Hon. W. P. C. Harding, Governor of the Federal Reserve Bank of Boston, Mass.; and H. T. Ross, K.C., Secretary of the Canadian Bankers' Association.

As directed in the Order of Reference, the Committee conducted a study of possible improvements to our Canadian Banking system, and many interesting and useful suggestions were made; but early in the proceedings one major proposal to a large extent monopolized the attention of the Committee, viz:., that a Central Bank of Issue and Rediscount, somewhat analogous in its relations to the Canadian banking system to that of the Federal Reserve Banks to the United States system should be established in Canada. It was urged that through the “open market” operations of such a bank and variation in rates of interest in accordance with changing monetary conditions, control of credit could in some degree be exercised, and that the institution might become a medium through which commodity price levels could be regulated.

The evidence adduced did not, however, convince the Committee that such could be fully achieved. The preponderance of evidence indicated that the operations of a Central Bank of Issue, or Federal Reserve Bank as in the United States, exercised only an indirect or limited influence over price levels and that many of the functions attributed to such Central Bank of Issue and Rediscount were already being performed through the Finance Act. The Committee, however, is of opinion that owing to the rapid expansion of Canadian commercial,

industrial and agricultural operations and the possibility in the near future for the need of a much larger measure of credit than at any time in the past, it is desirable that a careful study be made by competent experts of the facilities available under the Finance Act, and to determine if such are capable of ready expansion to meet possible requirements of credit; and further to determine if under the present scope of the Finance Act it is possible for the Treasury Board to deal effectively with unusual variations in the rates of interest; and, lastly, to consider (in case it should be decided that present legislation is too restrictive) what measures should be taken to adapt our present system to the growing needs of the country.

Your Committee, therefore, recommend that the Government, through the Minister of Finance and the Treasury Board, invite into conference the Bankers of Canada, together with other competent persons with experience in such matters, to give further study to the subject matter of this Report, with instructions to take such steps as in their opinion in the premises are warranted. Your Committee feel that while it has accomplished much useful preliminary work, this would be conducive to a more intensive study of the question than to have the Committee itself conduct further investigations and this recommendation would, of course, in no way affect the usual procedure of having all important changes in banking legislation ordinarily made at the regular decennial revisions of the Bank Act submitted for the careful consideration of the Committee.

Your Committee desire to express appreciation of the manner in which evidence was given, and particularly of the courtesy of the Hon. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, for having come to Canada to give evidence which has proven to be of inestimable value to the Committee.

A copy of the proceedings and evidence is submitted herewith.

All of which is respectfully submitted.

F. W. HAY,  
*Chairman.*

*(Presented, 3rd May. Concurred in, 9th May.)*

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## MOTION IN HOUSE TO PRINT PROCEEDINGS AND EVIDENCE AS APPENDIX TO THE JOURNALS OF THE HOUSE AND IN BLUE BOOK FORM

On Motion of Mr. Sanderson, for Mr. Hay, it was ordered,—That the proceedings and evidence taken by the Select Standing Committee on Banking and Commerce respecting improvement of the banking system of Canada, as submitted in their Seventh Report on 3rd May last, be printed as an appendix to the Journals of the House; that 750 copies in English and 250 copies in French of said proceedings and evidence be printed in blue book form; and that Standing Order 64 be suspended in relation thereto.

*(Presented, 23rd May, 1928.)*



## MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

ROOM 277,

WEDNESDAY, 29th February, 1928.

The Committee met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bird, Bock, Bothwell, Guérin, Hanson, Hay, Irvine, Ladner, Matthews, Smoke, Spencer, Steedsman, Ward and Woodsworth.

The Committee proceeded to the consideration of a resolution of the House, viz.:

That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon.

At the invitation of the Chairman, Mr. Woodsworth outlined the course which he thought the Committee should follow. Suggestions were then made by Messrs. Hanson, Ladner, Spencer, Irvine and Matthews.

On motion of Mr. Ladner, it was,—

*Resolved*,—That the Committee request permission to have 750 copies in English and 250 copies of French of their proceedings and evidence which may be taken respecting consideration of the improvement of the banking system of Canada printed from day to day for the use of the Committee, and of the House of Commons, and that Standing Order 64 be suspended in connection therewith.

On motion of Mr. Hanson, it was,—

*Resolved*,—That a sub-committee of three, to include the Chairman, be appointed by the Chairman to suggest names of probable witnesses.

*Ordered*,—That Mr. J. C. Saunders, Deputy Minister of Finance, and Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, be requested to give evidence before the Committee at the next meeting.

The Committee adjourned until Wednesday, 7th March, at 11 a.m.

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HOUSE OF COMMONS,

ROOM 429.

WEDNESDAY, 7th March, 1928.

The Committee met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bothwell, Casselman, Cayley, Donnelly, Ernst, Guérin, Harris, Hay, Irvine, Ladner, McLean (*Melfort*), Matthews, Perley (Sir George), Robinson, Robitaille, Smoke, Spencer, Steedsman, Woodsworth and Young (*Weyburn*).

The Chairman intimated that Messrs. Woodsworth and Matthews would act with him as a sub-committee to suggest the names of probable witnesses.

On motion of Mr. Bothwell,—

*Resolved*,—That notices of motion shall be made in writing, and that witnesses shall be sworn.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, Ont., was called, sworn and examined. Witness retired.

Mr. Woodsworth stated that Mr. Arthur E. Darby, Director, Economic Research, Canadian Council of Agriculture, was in attendance, and desired a hearing on behalf of that body.

Mr. Darby was called and sworn. He read a memorandum adopted by the Canadian Council of Agriculture in 1927, and was later questioned thereon. Witness discharged.

Mr. J. C. Saunders, Deputy Minister of Finance, Ottawa, Ont., who was requested to appear for examination to-day, was absent on account of sickness.

The Chairman, on behalf of the sub-committee, suggested that the President of the Bankers' Association be heard at the next meeting, which suggestion was concurred in by the Committee.

The Committee adjourned until Thursday, 15th March, at 11 a.m.

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HOUSE OF COMMONS,  
ROOM 429,

THURSDAY, March 15, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bird, Casgrain, Casselman, Fafard, Gervais, Hay, Irvine, Ladner, McPhee, Matthews, Perley (Sir George), Robb, Robinson, Robitaille, Smoke, Spencer, Steedsman, Stevens, Vallance, Ward, Woodsworth and Young (*Weyburn*).

The Chairman announced that the sub-committee appointed to suggest probable witnesses had been in communication with Mr. Young, Governor, Federal Reserve Board, Washington, D.C., and had received an assurance that a witness would be provided by that body. The Committee confirmed the action taken, with an instruction to suggest alternative dates to the witness for a hearing.

Mr. Albert E. Phipps, President of the Canadian Bankers' Association, and General Manager of the Imperial Bank of Canada, was called and sworn. He read a statement, and later was questioned. Witness discharged.

Mr. Ladner filed a statement indicating the functions of a proposed Federal Reserve Bank of Canada (incorporated in the evidence taken to-day as Exhibit No. 1).

The Committee adjourned until Wednesday, March 21, at 11 a.m.



HOUSE OF COMMONS,  
ROOM 429,  
WEDNESDAY, March 21, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Bird, Bock, Bothwell, Casgrain, Casselman, Drayton (Sir Henry), Ernst, Guérin, Harris, Hay, Irvine, McLean (*Melfort*), Matthews, Robinson, Ryckman, Sanderson, Spencer, Steedsman, Vallance, Ward, Young (*Weyburn*).

PRIVATE BILLS

The Chairman announced that several Private Bills would be ready for consideration at the next meeting; and, at his suggestion, it was decided that Bill No. 56, An Act respecting the Sun Life Assurance Company of Canada, be the first bill to be considered at the next meeting.

CONSIDERATION OF IMPROVEMENT OF THE BANKING SYSTEM OF CANADA

The Chairman, on behalf of the sub-committee appointed to suggest probable witnesses, stated that Mr. Harding, Governor of the Federal Reserve Bank, Boston, Mass., U.S.A., would be available as a witness on Wednesday, March 28. The Committee accordingly decided to hear Mr. Harding on that date at 10.30 a.m.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, Ont., was recalled and further examined. Witness retired.

Mr. G. W. Hyndman, Assistant Deputy Minister, Department of Finance, Ottawa, Ont., was called, sworn and examined. Witness stood aside.

Mr. C. S. Tompkins was recalled to answer a few questions, and retired.

Mr. G. W. Hyndman was recalled and examination continued. Witness retired.

The Committee adjourned until Tuesday, March 27, at 11 a.m.

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WEDNESDAY, March 28, 1928.

The Select Standing Committee on Banking and Commerce opened proceedings at 10.45 a.m., Mr. Hay, the Chairman, presiding.

The following members of the Committee were present:—

Messieurs Benoit, Bird, Casselman, Cayley, Donnelly, Drayton (Sir Henry), Fafard, Guérin, Hanson, Harris, Hay, Irvine, Ladner, Matthews, Perley (Sir George), Robb (Hon. J. A.), Robinson, Sanderson, Spencer, Steedsman, Stevens (Hon. H. H.), Vallance, Ward, Woodsworth, and Young (*Weyburn*)—25.

The Chairman opened the meeting, and introduced to the Committee the witness for the day, Mr. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, Mass., who, he stated, had kindly acceded to the request of the Committee to come before them and give them his views in regard to the Banking system of the United States, with particular mention of the Federal Reserve system. He expressed his thanks and the thanks of the Committee and their appreciation in having Mr. Harding with them.

Hon. Mr. Robb, Minister of Finance made some brief remarks, extending a cordial welcome, both for himself and on behalf of the Government, for the courtesy shown by Mr. Harding in coming to share his views with the Canadian people on this important matter.

Mr. Harding was then asked to address the meeting, which he proceeded to do. He described in detail the changes and improvement of the banking system in the United States from the time when that country was small in population and wealth up to the present time, elaborating particularly on the Federal Reserve Banks, and the Reserve Bank system.

On finishing his statement, questions were asked by Mr. Stevens, Mr. Ladner, Mr. Woodsworth, Mr. Spencer, Mr. Hanson, Mr. Matthews, Sir Henry Drayton, and others, which were answered by Mr. Harding in detail.

It being after one o'clock, the Chairman stated that it would, he thought, be necessary to close the meeting. He expressed the pleasure of the Committee in having such a comprehensive address from Mr. Harding, and formally tendered the united thanks of the Committee.

The Committee then adjourned to meet again at 11 a.m. to-morrow—Thursday.

E. L. MORRIS,  
*Acting Clerk of the Committee.*

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ROOM 429, HOUSE OF COMMONS,  
WEDNESDAY, April 18, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presided.

Present: Messrs. Benoit, Black (Halifax), Bock, Bothwell, Cayley, Chaplin, Donnelly, Geary, Guerin, Hay, Irvine, Jacobs, Ladner, McLean (Melfort), Perley (Sir George), Robinson, Ryckman, Smoke, Spencer, Steedsman, Stevens, Ward, Woodsworth.

Bill No. 38, An Act to amend the Bankruptcy Act (Attendance for Examination). Mr. Varcoe of the Department of Justice, and Mr. Brady, M.P., the sponsor, were heard. Bill stood over.

A resolution of the House, referred to the Committee, viz.:

“That the Committee investigate and report on the operations of companies carrying on sickness and accident insurance business in Canada”,

was called. Mr. McQuarrie, M.P., sponsor, addressed the Committee.

On motion of Mr. Irvine,

Resolved, That the evidence to be taken should be stenographically reported, and that permission be requested to have this done.

#### CONSIDERATION OF IMPROVEMENT OF THE BANKING SYSTEM OF CANADA

Mr. Henry T. Ross, Secretary, Canadian Bankers' Association, was called, sworn and examined. Witness retired.



On motion of Mr. Donnelly,

Resolved, That a sub-committee of five members, to be named by the Chairman, be appointed to draft and submit to the Committee for approval a report for submission to the House.

The Chairman accordingly named as a sub-committee Messrs. Stevens, Donnelly, Ladner, Woodsworth and Hay.

The Committee adjourned until Wednesday, April 25.

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ROOM 497, HOUSE OF COMMONS

THURSDAY, May 3, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., with Mr. Hay, the Chairman, presiding.

Present: Messrs. Benoit, Bird, Black (*Halifax*), Bock, Bothwell, Casgrain, Casselman, Donnelly, Ernst, Gervais, Hay, Irvine, Matthews, Perley (Sir George), Smoke, Spencer, Steedsman, Stevens, Ward, Woodsworth, Young (*Weyburn*).

Bill No. 38, An Act to amend the Bankruptcy Act (Attendance for Examination).

Mr. Varcoe of the Department of Justice was heard.

On motion of Mr. Stevens,—

Resolved,—That the Committee recommend the withdrawal of the Bill, and that the contents thereof be commended to the consideration of the Government for incorporation when a general amending Act to the Bankruptcy Act is contemplated.

CONSIDERATION OF IMPROVEMENT OF THE BANKING SYSTEM OF CANADA

The Chairman announced that the Sub-Committee appointed to draft a report for submission to the House had agreed, on division, to submit the following to the Committee for approval, viz:—

“Consideration has been given to a Resolution of the House of Commons, dated February 13, 1928, and referred to this Committee, viz:—

“That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon”.

Five sessions of the Committee were held during which this reference was under consideration.

Witnesses were examined, including O. S. Tompkins, Inspector-General of Banks, G. W. Hyndman, Assistant Deputy Minister of Finance; A. E. Darby, Director of Economic Research of the Canadian Council of Agriculture; A. E. Phipps, President of the Canadian Bankers' Association; The Hon. W. P. C. Harding, Governor of the Federal Reserve Bank of Boston, Mass.; and H. T. Ross, K.C., Secretary of the Canadian Bankers' Association.

As directed in the Order of Reference, the Committee conducted a study of possible improvements to our Canadian Banking system, and many interesting and useful suggestions were made; but early in the proceedings one major

proposal to a large extent monopolized the attention of the Committee, viz., that a Central Bank of Issue and Rediscount, somewhat analogous in its relations to the Canadian banking system to that of the Federal Reserve Banks to the United States system should be established in Canada. It was urged that through the "open market" operations of such a bank and variation in rates of interest in accordance with changing monetary conditions, control of credit could in some degree be exercised, and that the institution might become a medium through which commodity price levels could be regulated.

The evidence adduced did not, however, convince the Committee that such could be fully achieved. The preponderance of evidence indicated that the operations of a Central Bank of Issue, or Federal Reserve Bank as in the United States, exercised only an indirect or limited influence over price levels and that many of the functions attributed to such Central Bank of Issue and Rediscount were already being performed through the Finance Act. The Committee, however, is of opinion that owing to the rapid expansion of Canadian commercial, industrial and agricultural operations and the possibility in the near future for the need of a much larger measure of credit than at any time in the past, it is desirable that a careful study be made by competent experts of the facilities available under the Finance Act, and to determine if such are capable of ready expansion to meet possible requirements of credit; and further to determine if under the present scope of the Finance Act it is possible for the Treasury Board to deal effectively with unusual variations in the rates of interest; and, lastly, to consider (in case it should be decided that present legislation is too restrictive) what measures should be taken to adapt our present system to the growing needs of the country.

Your Committee, therefore, recommend that the Government, through the Minister of Finance and the Treasury Board, invite into conference the Bankers of Canada, together with other competent persons with experience in such matters, to give further study to the subject matter of this Report, with instructions to take such steps as in their opinion in the premises are warranted. Your Committee feel that while it has accomplished much useful preliminary work, this would be conducive to a more intensive study of the question than to have the Committee itself conduct further investigations and this recommendation would, of course, in no way affect the usual procedure of having all important changes in banking legislation ordinarily made at the regular decennial revisions of the Bank Act submitted for the careful consideration of the Committee.

Your Committee desire to express appreciation of the manner in which evidence was given, and particularly of the courtesy of the Hon. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, for having come to Canada to give evidence which has proven to be of inestimable value to the Committee.

A copy of the proceedings and evidence is submitted herewith."

Mr. Bothwell moved that the draft report be adopted as the report of the Committee.

Mr. Woodsworth moved in amendment thereto that in the paragraph of the draft report commencing "The evidence adduced did not," the following be inserted after "unusual variations in the rates of interest," viz:

"to further explore the possibilities of stabilizing the money market with a view to preventing the recurrence of periods of inflation and deflation with their attendant evils;".

The question being put on the amendment, it was negatived on division.

The question being put on the motion, it was agreed to.

Ordered,—To report to the House.

The Committee adjourned, to meet at the call of the Chair.



The Select Standing Committee on Banking and Commerce met at 11 a.m., with Mr. Hay, the Chairman, presiding.

Present: Messrs. Bock, Casselman, Fafard, Harris, Hay, Ladner, Lang, McLean (Melfort), Matthews, Ryckman, Sanderson, Spencer, Steedsman, Stevens, Woodsworth.

CONSIDERATION OF IMPROVEMENT OF BANKING SYSTEM OF CANADA

On motion of Mr. Woodsworth,—

Resolved,—That proceedings and evidence taken, submitted to the House with the Seventh Report on the 3rd May, should be printed as an appendix to the Journals of the House, and that 750 copies in English and 250 copies in French should be printed in blue book form.

The Chairman announced the receipt from Mr. G. W. Hyndman, Assistant Deputy Minister of Finance, of two statements, viz:—

1. Exports of gold from Canada, 1917 to 1928.
2. Monthly merchandise trade balances, April, 1916, to February, 1928.

On motion of Mr. Spencer,—

Resolved,—That Mr. Hyndman's two statements referred to above be incorporated in the appendix to the Journals and in the blue book form.

Bill No. 215 (Letter P4 of the Senate), An Act to incorporate The Canadian Commerce Insurance Company.

The Chairman read a letter from Mr. Finlayson, Superintendent of Insurance, stating that he had no objection to the passage of the Bill.

Preamble adopted.

Sections 1 to 9, both inclusive, carried.

Ordered,—To report the Bill without amendment.

Bill No. 314 (Letter K7 of the Senate), An Act respecting The Dominion Fire Insurance Company.

The Chairman read a letter from Mr. Finlayson, Superintendent of Insurance, stating that he had no objection to the passage of the Bill.

Preamble adopted.

Sections 1 to 4, both inclusive, carried.

Ordered,—To report the Bill without amendment.

The Committee adjourned to meet at the call of the Chair.





## MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

WEDNESDAY, March 7, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. F. W. Hay, presiding.

CHARLES E. S. TOMPKINS, called and sworn.

*By the Chairman:*

Q. Mr. Tompkins, will you just make any statement you wish.—A. I confess I have no general statement to make in view of not having intimation of the particular line of inquiry which would be proceeded with this morning.

Q. I suppose it would be too general a question to ask of you if you have any thought which might improve banking conditions in Canada.—A. I believe that the banking system as it prevails meets the needs of the country adequately, and while improvements might be necessary from time to time, I cannot see that there is anything radically wrong with it at the present time.

Q. Perhaps this question is more lengthy than the answer, but I wonder if there is any thought in your mind, as there is in the minds of a good many Canadians who are not bankers—far from it—but borrowers of money, that the banks are restricted in the amount of money they are able to loan to their customers. There is a system prevailing in the United States which makes it more favourable for the borrowers, because when a bank is up to its loaning capacity, it is able to borrow from some other source. I believe, upon inquiry, that there is a condition here which practically puts us in the same position. Can you give us a short outline of the manner, when banks are out of funds, by which they recoup themselves?—A. They can obtain advances under the Finance Act by pledging with the government municipal securities and even commercial paper. This Act originated at the beginning of the war and has been, with some modification, continued to serve post-war needs, and it appears to meet the situation adequately.

*By Mr. Woodsworth:*

Q. Before the witness passes from that: would you give us some idea of the class of securities acceptable to the government?—A. The classes of securities are set out in section 2 of the Finance Act, assented to June 30th, 1923. Shall I detail them?

Q. I would be glad if you will, for my information.—A. Treasury bills, bonds, debentures or stocks of the Dominion of Canada, the United Kingdom, any province of Canada, or any British possession; public securities of the government of the United States; Canadian municipal securities; promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax, or other commodities; promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes and which have been used or are to be used for such purposes.

*By the Chairman:*

Q. Do these securities carry the endorsement of the bank which borrows upon them?—A. Where it is necessary—Oh yes, commercial paper, undoubtedly.

*By Mr. Spencer:*

Q. This includes practically every collateral which is deposited with a bank?—A. The chief ones.

*By Mr. Woodsworth:*

Q. I would like to ask a practical question which has often occurred to me. We have such co-operative organizations as the wheat pool now in existence. The wheat cheques may be deposited with a bank and re-deposited with the government. Is there any reason why the wheat pool itself should not secure advances direct from the government upon depositing these securities?—A. Of course there are various kinds of banking which we have to do. I suggest that it is our impression, on all these various classes of transactions, that their borrowings should be done through the banks at the same time.

Q. That is, it is indirectly an advantage to them to have banking facilities?—A. Exactly.

Q. But so far as the transaction itself is concerned there would be no inherent reason why a government should not accept the securities of the wheat pool for instance, or any other such organization?—A. At the moment I can think of no great obstacle to that.

Q. What would the banks lose in that case?—A. They would lose the interest they make, on the moneys they are able to pay out, that are available for loaning.

Q. But the Government would lose what?—A. I do not quite understand you.

Q. What would the Government lose by such an arrangement?—A. I do not know that the Government would lose anything.

*By Sir George Perley:*

Q. Would they have to set up any organization to deal with loans of that kind?—A. Unquestionably there would be the added cost of administration.

The CHAIRMAN: Mr. Woodsworth is trying to get at what is charged to the banks for what is lent to them, and how much cheaper it would be to deal directly.

*By Mr. Woodsworth:*

Q. Take the wheat pool in the West; as I understand it, if the wheat pool could deal directly with the Government you suggest that that wheat pool or other such co-operative organization might possibly be embarrassed because they could not undertake or secure other banking facilities?—A. Quite so.

Q. They might possibly find some difficulty there?—A. They might.

Q. But as far as the bank itself is concerned, it would lose the interest?—A. Quite so.

Q. Which would be a considerable amount. I would like to ask in a moment or two, how much. As far as the Government is concerned you think there would be a little more cost of administration?—A. Undoubtedly I think there would be.

Q. Suppose the wheat pool deposited securities directly, how much more trouble would there be in crediting them to the wheat pool than to the banks?—A. Well, a bank's borrowings are very largely against bonds and negotiable securities. They do not find it necessary to deposit, as a rule, the actual grain documents, although that is provided for by the Act. They might consider it much simpler, if they had available securities deposited, bonds, government, municipal or such other securities as are detailed in the Act.

Q. What are the extra amounts of money issued at the present time under the Bank Act?—A. Well, I think bonds and other securities are mentioned.

Where there is power to deposit grain documents, it is not taken advantage of, except on temporary occasions.

Q. What interest is charged as a matter of fact, to the wheat pool or other organizations for that accommodation?—A. By the banks?

Q. Yes?—A. I am hardly at liberty to say that, even if I were absolutely up to date on the information.

Mr. WOODSWORTH: Possibly we will get that later from the banks.

*By Mr. Spencer:*

Q. I understand that amongst the securities the banks bring to the Treasury Board there are Provincial bonds; why should not a Provincial government be able to bring its own bonds to the Treasury Board and get accommodation?—A. Provincial bonds lodged by the banks are simply those that they hold against ordinary securities on their investments, and are deposited to get temporary advances, as the need arises.

Q. Whether one or the other, what objection would you have to that legislation?—A. I cannot see that the two transactions have any relation one to the other.

*By the Chairman:*

Q. Provincial governments that want to borrow money are able to sell their bonds as cheaply as the Dominion Government can, and to the same advantage?—A. At very close to the same rate.

*By Mr. Woodsworth:*

Q. Is there any governmental control, of any kind whatever, as to the amount of credits which the banks are permitted to issue?—A. Under the Finance Act do you mean?

Q. Yes?—A. You mean the advances by the Government to the banks?

Q. No, I mean the advances by banks to depositors or customers?—A. No.

Q. Nothing whatever?—A. You mean statutory control?

Q. Yes?—A. None.

Q. I mean Governmental control?—A. It is purely a matter of policy.

Q. It is purely a matter of banking policy?—A. Yes.

Q. Is it not true that the amount of credits issued has a direct relationship to general price levels?—A. Well, I hardly feel competent to express an opinion upon that matter. Authorities have gone on record in that connection. I hardly think that any evidence I could give would be of any great value.

Q. Whatever the facts may be, you are clear as to the fact that there is no governmental control whatever, as to the issue, as to the extension, or the restriction of credit?—A. No.

Q. Do you think that that places a very great power in the hands of the banks?—A. I think past experience shows that they have exercised that power wisely.

Q. Is there any restriction whatever placed upon a director of a bank being a director of an ordinary industrial or business corporation, as to the power of such director?—A. No.

Q. In such a case, is there not a possibility that a director of a bank, interested in an industrial corporation, might give preference to that corporation in the extension of credit facilities?—A. I do not think it has worked out along those lines in the past.

Q. You think not—A. Perhaps there have been some few solitary exceptions, but nothing in recent times.



*By the Chairman:*

Q. There is nothing in the Act which prevents a director dealing with a competitive business, as a director; I think, where an application is made for a loan by a competitor, a director usually sits out. Is that so?—A. The Act provides that a director shall not sit in or have any vote or say with regard to an extension of credit or the granting of credit to a concern in which he is interested, or of which he is a director.

*By Mr. Matthews:*

Q. The question is framed in a peculiar way. Do you not think so?—A. Not at all.

Mr. MATTHEWS: I do not think the question meets the situation at all.

*By the Chairman:*

Q. The Act deals with that does it?—A. Yes, sir.

*By Mr. Robinson:*

Q. Is it not often the case that when a concern is not doing well, the bank appoints one of its directors to the Board of the industry in question in order to see that the finances are properly handled?—A. That may be so.

*By Mr. Woodsworth:*

Q. May I ask if there was not a case recently mentioned in the newspapers with regard to the directors of the Banque Provinciale having advanced large sums of money to the Montreal Dairy Company?—A. I do not recall having seen any publicity, in a published article. Was it in a Montreal newspaper?

Q. I believe so?—A. I do not believe I saw it.

*By the Chairman:*

Q. No complaint was made to your department?—A. Not that I know of.

*By Mr. Woodsworth:*

Q. Supposing a complaint did come, of a bank director taking advantage of his position to lend large sums of money to a company in which he was interested, what action would your department take?—A. After receiving the complaint, if I felt it to be my duty to do so, I would report the action to the Minister.

Q. What authority would he have in that case?—A. Nothing but general authority, I would say.

Q. Is there any limit set to the loans which a bank director can make, shall I say to himself, as a director of another company?—A. No. I have here the amendment to the Act dealing with that. Perhaps I might read it. It is in Section 76 of the Act respecting Banks and Banking; it provides the lending of money under certain circumstances. Sub. Sec. 2 of Sec. 76 provides:—

76. The bank may—

2. Except as authorized by this Act, the bank shall not, either directly or indirectly,—(F.) lend money or make advances in excess of ten per cent of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager, or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or meeting specially called for the purpose, of the board.

Q. But if the Board is willing to give such consent?—A. It must take the responsibility.

Q. The amount then is unlimited? (No reply.)

[Mr. C. S. Tompkins]

*By the Chairman:*

Q. Is the number of directors constituting a quorum limited by the Act?—  
A. It is usually done by by-law.

Q. Would five be the minimum for a Board of Directors?—A. It is according to the size of the Board, the number constituting a quorum.

Q. But does the act prescribe that you must have so many directors?—  
A. No, I think it shall not be less than a certain number.

Q. It is three, for companies in Ontario; I do not know what it is under the Bank Act?—A. That is provided for in Section 18 of the Act respecting Banks and Banking, which states that the number of Directors shall not be less than five, and a quorum thereof shall not be less than three.

*By Mr. Woodsworth:*

Q. In practice, is there any limit to the amount that may be granted by a local branch bank without reference to headquarters?—A. The limit varies. You mean loans granted upon the manager's own responsibility?

Q. Yes. Can you give the range?—A. With some banks it is much larger than with others.

*By the Chairman:*

Q. Is there a tendency to place a little more responsibility upon the local managers?—A. Yes.

Q. In recent years, I mean?—A. Yes, during recent years.

Q. Your Department has no power over that?—A. That is a matter of the internal regulation of the bank.

*By Mr. Woodsworth:*

Q. Do you think there is any tendency, in the case of an extensive country of this kind, when nearly all loans must be submitted to headquarters, that naturally a concern near at hand will receive more consideration than a concern which is more remote?—A. No, I do not think so. I might add that supervisors of the banks in the different districts or provinces, have very substantial loaning limits, within which they may grant credits without reference to the head office, and that all tends to meet that situation adequately, in my opinion.

Q. Is there any relation at all observed as between deposits, I mean, savings deposits, made in any one locality, and the amount of money loaned in that particular locality?—A. No. One of the advantages of our system, as has been often emphasized, is that it allows surplus funds from one community to be employed where they may be needed in the commercial or industrial life of another community in the country.

Q. Is there any way in which the funds of the banks are limited to Canada, that is, the areas in Canada, or is the proportion that can be loaned in Canada limited?—A. No.

Q. Are the banks free to loan abroad?—A. The policy has been that foreign deposits shall take care of foreign loans. That has been the situation.

Q. How is that shown?—A. It is shown in our returns of deposits and loans other than in Canada.

Q. You mean commercial deposits?—A. And savings deposits as well.

Q. What is the relationship between the two?—A. I cannot separate one from the other. The bank's return simply gives the total deposits other than in Canada.

Q. Do you not think that it would be advisable to have some separation?—A. That would be of no advantage.

Q. Is there a wide distinction between commercial deposits and savings deposits?—A. Unquestionably. Savings deposits in Canada are payable after notice. Deposits from abroad consist of a variety of deposits. Very often in some countries savings accounts are not actually operative, whereas in others the custom has been to act otherwise.

*By Mr. Irvine:*

Q. If I understood you correctly, you intimated that certain surpluses from certain sections of the country would be available to devote to another section of the country, in connection with branch banks?—A. That is correct.

Q. Is there any relation between the amount of money on savings accounts in the banks and the actual amount of credit released by the banks, or initiated by them?—A. I would not single savings accounts out. A bank's deposits as to the total will enable them to extend credits in proper proportions.

Q. Would that not mean that we would not require to get deposits from any particular community?—A. I am afraid I do not catch the question.

Q. You intimated that surpluses from one section of the country would be available for another section. In view of the fact that any transaction would depend upon the securities of the person or corporation applying, and the fact that borrowing would affect the deposits, is it necessary to put through a transaction of that kind to remove one part of the savings from one part of the country to another?—A. That is too involved a question.

Q. There should not be any difficulty about it. I think you admit that the amount of money on deposit in the savings accounts in Canada has nothing to do with the amount of money issued in the form of credit by the banks. By what authority do you say that we take a certain amount of securities from one part of the country to another to give loans?

The CHAIRMAN: You mean, does the amount of deposits in Section B for instance have any relation in your mind to the credits that may be granted to that section?

Mr. IRVINE: I am not limiting it to any section, Mr. Chairman.

WITNESS: All I can say is that obviously the extent to which a bank is able to obtain deposits, both savings and current, enables it to loan in such proportions as it may consider good policy.

*By Mr. Irvine:*

Q. There must be some proportion between the amount of savings and the amount on current deposit in the banks?—A. I say that the total amount of deposits, no matter what they are, will put the bank in a position to be able to loan money.

Q. Is it not so that a loan in one section of the community, say on the strength of a man's herd of cattle, is a deposit in fact?—A. That is Mr. McKenna's argument. I believe it is, up to a certain point.

Q. You would not devote that amount of money to another man to enable him to get a loan on his herd of cattle. You are conveying a wrong impression, not intentionally, of the banking system, I would say.—A. I think not.

*By Mr. Woodsworth:*

Q. May I put it in a little different way? Mr. Irvine speaks of banking practices. Take Brownsville for instance; a farmer comes in and wants to borrow \$1,000. At that point he brings in his collateral, whatever it is, to his loan of \$1,000 by demand, and is credited with a deposit of approximately, \$1,000. Is that not a transaction complete in itself, without having to call in Montreal to the aid of Brownsville?—A. Yes, in a sense it is. Of course the



money which is created by the loan, as you term it, might easily go out again, and it might be necessary for the head office or some other section of the country to allow that branch a further amount, to permit it to carry on.

Q. But as far as that transaction is concerned Brownsville stands upon its own feet?—A. Quite so.

Mr. WOODSWORTH: I cannot see where Montreal or other sections are an advantage, in that immediate transaction.

*By Sir George Perley:*

Q. Take the farmer who borrows the money; the supposition is that he draws out almost immediately that amount for his wants. It does not remain as a deposit, and if Brownsville has no deposits from other people, it might be necessary to draw upon some other resources of the bank?—A. That is correct. The deposit can only exist as long as the amount is left at his credit.

*By Mr. Woodsworth:*

Q. But it appears in the reports that the bank has received a deposit and has issued a loan of \$1,000?—A. The deposit may only exist for two or three days.

Q. It does not require currency to make it good?—A. Not at that particular moment.

Q. What is true of one individual transaction is true of the whole body of transactions?—A. Up to a certain point.

Q. When you speak of foreign countries, and you say that they carry the loans, that is merely saying that there is sufficient collateral put up in those foreign countries to provide for the finances?—A. Sufficient deposits to finance the loaning business in those countries.

*By the Chairman:*

Q. A man may borrow \$1,000 to purchase a herd of cattle. That transaction is complete in itself. But you may take \$1,000 and it may go to twenty or thirty people, merchants and so forth, and it may not reach Brownsville for months; in fact it might never become a deposit, or it may be months and months before it becomes a deposit.—A. It might conceivably stay there for an hour, or for twenty-four hours.

*By Mr. Woodsworth:*

Q. But it is regarded as a deposit?—A. It is regarded as such.

Q. I want to get from you this: immediately a loan is made, is it not entered in the books as a deposit?—A. Where is the money to come from, if a man comes in three hours afterwards and wants to draw it all out?

Q. In currency?—A. Yes.

Q. The payment is all done by cheque?—A. Yes, but the cheque has to be met; the bank has to pay somebody for the cheque.

Q. But the thing is cancelled?—A. You mean, if he pays the loan simultaneously?

Q. I mean that it is not necessary for the bank to produce, in that case, any currency?—A. If he pays by cheque, do you mean?

Q. Yes, if he pays by cheque?—A. Certainly; it must produce currency to pay somebody.

*By Mr. Irvine:*

Q. Is it your suggestion that there must be cash as these loans are required?—A. Yes, cash to meet the loans or the deposits.

[Mr. C. S. Tompkins]

Q. Would you care to tell us how much actual cash is required to meet all the loans in Canada in that regard?—A. That is asking me a rather difficult question.

Q. It is on record, is it not?—A. I do not know that it is.

The CHAIRMAN: The Deputy Minister may give that more accurately. As a matter of practice with the banks, it does, or it does not, become a deposit. I deposit \$1,000, and they give me credit for it. I am leaving it at my credit, wholly or in part, and if I want the currency I write a cheque and get the proceeds, it may be, of my discount.

*By Mr. Ernst:*

Q. But it has to come from somewhere. The deposits are not increased. It may come from outside, or it may come from another branch?—A. I say again that the creation of deposits through loans is true up to a certain point, but only up to a certain point.

*By Mr. Spencer:*

Q. When is that point reached?—A. Perhaps I should cite an example. It is a common thing—perhaps I am not permitted to refer to United States banks—but it is a common thing for them to insist upon a certain amount of free deposits to be made, to keep up to their borrowing customs. They are much more particular in some respects than in Canada. A man getting \$5,000 might be expected to leave 20 per cent.

Q. Would you say that all loans are lent from savings deposits?—A. No.

Q. You say no?—A. Yes.

Q. Would you admit that a security that is lodged by a customer is a means of creating the loan?—A. It is a security behind the bank.

Q. The security creates the loan?—A. Well, the bank might not loan upon that man's name alone. It is the security that enables him to get the credit.

Q. A bank does not necessarily have to have a surplus deposit to borrow from to lend to that man?—A. They might have a demand deposit, to be able to meet it.

Q. But would they have to have a demand deposit to grant him the loan?—A. They have to have resources from somewhere. They have to have the money to advance to him.

Q. Can you define that a little more particularly?—A. I think sufficient evidence has come before the Committee before now. I do not think I can add anything to it.

Q. I think Sir Edmund Walker made the statement that only 4 per cent is necessary in some medium of exchange, such as notes or coin. Would you agree with that statement?—A. I cannot say. I am not in a position to say. Sir Edmund Walker was a very eminent authority, and after the fullest consideration I am not prepared to dispute it, neither would I care to go on record as agreeing with it necessarily.

Q. The point you have taken is, that you would have to have some money to give out. You say you do not want either to accept or reject a statement of Sir Edmund Walker. I take it for granted that Sir Edmund Walker is correct when he says that only 4 per cent is necessary in some medium of exchange, such as notes or coin, and that over 96 per cent is cheque money. Would that be correct?—A. Opinions might vary as to the percentages I presume. That is somewhat along the lines of Mr. McKenna's argument again, I think.

Q. You say you have to have money?—A. Yes, certainly.

Q. That is to say, you would allow the client to draw by cheque?—A. Yes.

Q. To cheque his money out?—A. Some term it that.

The CHAIRMAN: Mr. Tompkins will be available to us at any time. I rather think that we should give him some notice. I am not asking you to be restricted in your questions at all. We will have him again, if desired.

*By Mr. McLean (Melfort):*

Q. Suppose a customer goes into a bank and borrows on his own statement, \$1,000, on his own credit; he leaves one-half of it on deposit for a certain time. Supposing another man comes in immediately after, is that bank in a position to loan part of that \$500 that has been left there, if the security is reasonably good? Does it affect the transaction as between the bank and the first customer, if the customer has left one-half on deposit?—A. It would be taken into the general volume of deposits, and to that extent it would be available.

Q. The bulk of the banking business is done on credit, I presume. Is it the practice of the bank, where money has changed hands, if I go in, sign a note and get \$1,000 and \$500 is left to my credit, to take that into consideration when another customer comes in and wants a loan?—A. It is included in the general volume of business.

*By the Chairman:*

Q. Would the local manager pay any attention to that outside transaction?—A. No, he would take it in in the total.

*By Mr. Woodsworth:*

Q. What advantage is it to the banks to have their own currency?—A. I think the value of that privilege has been very greatly exaggerated.

Q. Can you give us any idea as to the value to the banks?—A. I think the late Sir Edmund Walker went on record in 1923 as saying that the value would be somewhere between one and two per cent. I would hesitate to be more exact than that in an estimate.

*By the Chairman:*

Q. That is, note circulation?—A. Yes.

Q. It was formerly worth very much more?—A. Yes.

*By Mr. Woodsworth:*

Q. There has been quite a decrease in the value of the privilege?—A. For the simple reason that the circulation in excess of dollar for dollar should be made good in a central gold reserve. In addition to that they have to pay 1 per cent to the government. The cost of printing and replacing them frequently is quite a substantial item.

Q. Would you say that the extension of the practice of payment by cheque in proportion to other types of money had anything to do with that?—A. No, I would not. I do not believe it has any relation to it.

*By the Chairman:*

Q. I suppose the increase in deposit savings in the bank, has brought in quickly the note circulation, whereas before it was held at long terms?—A. Transportation loans have been a factor. There was a time when they were not a factor, but that has passed long ago.

*By Mr. Spencer:*

Q. You said it did not pay the bank very well to issue notes over and above the amount of its paid-up capital and reserve because they have to deposit dollar for dollar in the Central Gold Reserve?—A. Or Dominion notes, I should have added that.

Q. Can you inform the Committee to what extent the Reserve is gold and to what extent it is Dominion notes?—A. At the end of December, the total deposits in the Central Gold Reserve were \$74,000,000 in round figures, of which, \$21,000,000 roughly was in gold coin and the balance in Dominion notes.



*By Mr. Young (Weyburn):*

Q. What percentage of the funds is kept in reserve in the various branches to handle the day's business, as it goes on from time to time?—A. I could not give you any particular amount. Are you referring to any specific branch?

Q. No, the money they have to keep practically idle?—A. At the end of December the bank's total holdings of gold and subsidiary amounted to \$76,519,000, and of Dominion notes \$138,803,000. That is what is commonly known as cash.

Q. What percentage is that of all the available money they have—all their deposits?—A. The percentage of their deposits? I would have to work that out for you, but I could give you that at a later meeting.

*By Mr. Irvine:*

Q. I understood you to say at the outset that you had not discovered any reasons why there should be any improvements in the banking system of Canada; that you thought it was functioning fairly well, and I think we are all in general agreement with that—at least in some respects. I think you said at a later time that there was no statutory control of credit—the actual amount of credit issued, and I think you also said you would not commit yourself on the question as to whether or not there was a relationship between the amount of credit issued by the bank and the price level. If it should transpire that there is a very decided relationship between the amount of credit issued and the price level, and the changing price level on the other hand has a very direct effect upon the lives of people, would you be interested in changing your mind on your statement that you think there is no need for improvement?—A. There is no telling what I might do; it is quite possible I might change my mind if I could be convinced by investigation along those lines, that the result you intimate would be obtained.

Q. Is there any control of the price of money? Is there any agency, legal or illegal, controlling the price of money in Canada?—A. Do you refer to the interest rates in general? No. Interest rates find their own level very largely. Competition is much keener in the banking field than ever before, and that very fact in itself, I think, cures any situation which might not be just—

Q. Are you acquainted with the work of the Federal Reserve Banks in the United States?—A. I have a fair knowledge of it, yes.

Q. You know the process by which they control the price of money?—A. I have a rough knowledge of it.

Q. Would you like to give an opinion as to whether or not you think it might be wise for us to have a similar institution for the control of the price of money in Canada?—A. I do not believe it is necessary under our system; I believe it was a very necessary thing for the United States, where they had a multitude of small banks and no co-ordination in financing, but I do not believe it is necessary for this country.

Q. I understood you to say a moment ago that our competition in banking was so keen here that we could pretty well be assured that the rate of interest would stay at its proper level. The competition in the United States in banking is surely much greater than in Canada, if they have more banks?—A. Not necessarily; they are largely these local banks with a very, very narrow scope.

Mr. ERNST: And monopolistic in their area.

*By Mr. Irvine:*

Q. I do not think there is any doubt that the greater the number of institutions the greater the competition. The wrecks lying along the road prove that. But I am not quite sure as to why you assume that competition in itself is sufficient to regulate the price of money to its proper relation with the price levels of the country, since there are no regulations.—A. I have nothing further to say on that point.

[Mr. C. S. Tompkins]

Q. I think perhaps my questions at least are outside the professional duties— —A. The practical practices. I say, with all respect, that I think you are dealing with a theoretical or economic side of the question, and possibly you might find more valuable witnesses than I in that respect.

Q. I would not say that, but perhaps you are not bound to answer this question.

Mr. YOUNG (Weyburn): Mr. Irvine, you spoke of the proper relation to the price level. What do you mean?

Mr. IRVINE: I would answer that by asking my hon. friend if he thinks there is a proper relation.

Mr. McLEAN (Melfort): It seems to me the law of supply and demand would control that.

*By the Chairman:*

Q. Have we not a legal lending rate in Canada?—A. The banks cannot recover in excess of 7 per cent.

*By Mr. Spencer:*

Q. You say a bank cannot recover if a charge is more than 7 per cent?—A. No.

Q. There is a legal limit in that respect?—A. Yes.

Q. No penalty behind that?—A. No.

Q. Therefore there is nothing to stop a bank charging 17 per cent if it can collect it?—A. I have not heard of such a fancy rate as that.

Q. There is no limit for the bank going above 7 per cent?—A. No; that has been considered in making various revisions of the Act.

Mr. SPENCER: We moved an amendment to put a penalty there, but the forces were too strong against us.

Witness retired.

ARTHUR E. DARBY called and sworn.

*By the Chairman:*

Q. Now, Mr. Darby, would you just open by making some little presentation, and we will find ample questions to ask you as you proceed?—A. With your permission, Mr. Chairman, I would like to make a statement and then perhaps at the conclusion of the statement I may be questioned, and I will be glad to answer any questions if I can.

The policy of the Canadian Council of Agriculture on banking reform—

*By Mr. Ladner:*

Q. Perhaps you would state at the beginning your position and your experience.—A. My position, Mr. Chairman, is that of Director of Economic Research for the Canadian Council of Agriculture. I have held that position for some four years, having been connected with the farmers' movement for some time before that.

The policy on banking of the Canadian Council of Agriculture—

*By Mr. Harris:*

Q. I would like to know if you are here of your own volition, or on resolution from the Canadian Council of Agriculture?—A. The position, Mr. Chairman, is that I was in Ottawa on other business, and in view of the adoption by the Council of the policy which I am about to describe to you, it was felt by

[Mr. Arthur E. Darby.]

some of our western friends that the committee should be put in possession of the views of the Council on this matter. The statement which I shall make embodies a memorandum adopted by the Canadian Council of Agriculture early in the year 1927.

*By Mr. Matthews:*

Q. What is the Canadian Council of Agriculture?—A. The Canadian Council of Agriculture is the nearest approach to a national organization which exists in the farmers' movement. At the present time it consists of representatives of the United Farmers of Ontario, the United Farmers of Manitoba, the United Farmers of Alberta and the United Grain Growers, Limited. At the time of the passage of this resolution the Farmers' Association in Saskatchewan was also a member of the Council, but that body is no longer in membership.

*By Mr. Harris:*

Q. The resolution cannot be very long; will you give us the resolution of the Council of Agriculture which you have on record?—A. I have no specific resolution, Mr. Chairman, authorizing me to appear before this committee, but the memorandum, which I propose to summarize for the benefit of the Committee, was formally adopted by the Canadian Council of Agriculture, and I have no doubt at all it is the wish of the Council that I should present its policy to this committee.

The CHAIRMAN: What the committee is anxious to have is any grievances or complaints which you feel should be presented to it.

The WITNESS: The Council meets only twice a year and it would be very difficult to get such a specific authorization in time for the work of this committee.

*By Mr. Harris:*

Q. Are you giving your own views to this committee, or the views of the Council of Agriculture?—A. The views which I am about to state are the views adopted by the Canadian Council of Agriculture specifically at its annual meeting in 1927. I could file with the committee here, by sending to Winnipeg, the terms of the resolution adopting this statement.

Q. I want to make sure that the Council of Agriculture will endorse everything you say.—A. I will be very careful to confine myself to statements which will represent the views of the Council, so far as I know them.

These questions, Mr. Chairman, are naturally approached by the Canadian Council of Agriculture from the standpoint of the immediate requirements of agricultural communities and their satisfaction with the least possible disturbance of existing institutions rather than from that of devising an ideal system of currency and banking. The latter problem is international in its scope, and its solution will necessarily be hampered by consideration for the actual economic conditions and the political exigencies of the various countries affected. Monetary reform must be achieved by an evolutionary process in which the steps will be taken under pressure of circumstances and will consist of expedients designed to overcome immediate and practical difficulties. The deliberate adoption of any new and revolutionary theory need not be anticipated.

During the disturbances of the last 12 years the currency of Canada exhibited, in comparison with that of other countries, a high degree of elasticity and suffered less inflation and depreciation than most other currencies. The return to the gold standard in Canada resulting from the re-establishment of freedom to import and export gold, and of note redemption, in July of 1925, was accomplished without difficulty—almost, indeed, without attention being drawn to the change. Currency reform in Canada, therefore, should be incidental to reforms in the banking system of the country.

[Mr. Arthur E. Darby.]



Consideration of the banking system in Canada leads to the conclusion that dissatisfaction with it is felt chiefly by agriculturists. Considered as classes, industrialists, merchants, traders in general and the professional workers are not the complainants. In fact, banking has been developed to meet the needs of the commercial and industrial classes. Banks exist to make profits and have naturally developed the best-paying services. In comparison with industrial production and commercial activities, agriculture is slow in turnover and less certain of its results in terms of profit and loss. It is a primary industry; that is, it produces the commodities which the secondary industries and the traders use as the basis of their activities. It assumes the real risks incidental to production; the secondary industries assume risks also, but to a more limited extent.

No surprise can be felt that banking has not developed services peculiarly adapted to agricultural needs. The rapid growth of industrial enterprise and commercial undertakings has offered an inexhaustible sphere of legitimate service and profit-making for banks. But the need of agriculture for banking services has become the more pressing in proportion to its neglect. The immediate and practical question, therefore, is: Can the existing banking system adapt itself to agricultural needs? If not, new institutions which can do for agriculture what the banks cannot do, or do not find profits sufficiently attractive in doing, must be set up.

To some extent, of course, the banks have given service to agriculture and the other primary industries. They have been eager to obtain their deposits and they have financed agricultural operations—though upon terms which are regarded by agriculturists as unduly onerous. In Canada the chief financing of agriculture has been done by mortgage loan companies. Here again agriculturists complain of the comparatively high costs of the services rendered. Whether the complaints of agriculturists of excessive costs of financing are justified can be determined only by experience gained in attempting to satisfy their needs more cheaply and efficiently. The existing agencies assert the justice of their charges in relation to the risks incurred, the duration of loans and the costs incidental to the provision of the services. That other nations, confronted with similar needs, have been compelled to devise special machinery for financing agriculture and mobilizing the borrowing power of the less wealthy classes is a matter of record.

Students of agricultural financing agree in the conclusion that the ordinary commercial banks are not adapted to serve agriculture as cheaply and efficiently as they serve industry and commerce. But in endeavouring to determine what reforms are practicable some attention must be paid to the nature of the need to be satisfied. Long-term loans do not fall within the scope of this discussion since it is not, as a general rule, part of the function of banks to provide such accommodation. Such loans are usually made on the security of land mortgages, which represent more permanent investments than banks, as such, find desirable. It ought, however, to be pointed out that in the absence of adequate facilities for bank, or short-term loans, the tendency to use the land mortgage loan for purposes to which it ought not be applied is encouraged. When this is done loans are apt to be larger than required, the proceeds of the reproductive operations financed are not applied to the immediate liquidation of the loan as would be done in a commercial or industrial transaction, and the borrower is insensibly led into bad financial practices.

Strict definition of the proper uses of the mortgage loan is a real need. If such be made it will be realized that what is really lacking is the machinery by which agriculturists may finance operations covering short and intermediate terms (six months to three or four years) without resort to the mortgage as primary security. Long-term mortgage loans occupy a field to themselves, but

[Mr. Arthur E. Darby.]

short and intermediate loans for reproductive purposes fall within the scope of banking operations. If such loans can be properly made, the effect must be to increase the yearly net income of the agriculturist and, therefore, to improve his position as a borrower on mortgage, enabling payments of interest and principal to be made with greater ease.

The provision of short and intermediate term loans to primary industries, like agriculture, entails for the ordinary bank a larger element of risk than is consonant with low charges, and a tendency to "frozen" loans. In the opinion of many these factors operate more powerfully on large centralized banks with many branch offices, such as exist in Canada, than they would do upon small "local" banks. The small bank must of necessity, it is argued, keep in close touch with local needs and be managed with more regard to individual character and opportunities.

On the other hand, greater stability and power to withstand financial vicissitudes is conferred by the system of large centralized banks, operating through local branches. In any case, the ordinary commercial bank, operating for profit, cannot cover the whole field of short-term and intermediate credit. Co-operative credit societies or co-operative people's banks alone can serve the needs of some classes in the community. That groups of people, organized co-operatively, may command credit which as individuals they cannot command is now generally recognized.

It may be, as European experience would seem to indicate, that in co-operative credit and banking lies the salvation of agricultural finance. Banking, like any other human activity, will depend for its success—its safety, combined with satisfactory service—upon the quality of management and direction it receives and the loyalty of those interested and concerned in the business. No laws and no governmental agencies can guard against the effects of incompetence and apathy though they can detect and punish the incompetent and the criminal. The condition to be avoided is that in which, through over-anxiety to protect people from the consequences of their own mis-management and lack of interest or precaution, the development of institutions suited to their peculiar genius is prevented. The application of initiative and energy in banking is just as necessary as in any other sphere and the conclusion can hardly be avoided that Canadian banking law does almost completely close the door to the development of institutions calculated to solve the problems associated with short-term and intermediate credit for farmers and other classes whose individual resources are inadequate to supply their credit needs, however sound "moral risks" they may be.

The CHAIRMAN: I do not want to interrupt you, but I think the Committee would like to know if there is much more of that, and if it would not be possible for you to eliminate any further reading—

The WITNESS: It will not take very long.

Mr. LADNER: This is the finding of a very important body, the Canadian Council of Agriculture—and I think it is highly important that the report of their conclusions be included in their report.

Sir GEORGE PERLEY: Are you reading from a pamphlet?

The WITNESS: I am reading from the substance of a memorandum adopted by the Canadian Council of Agriculture as its banking policy.

Sir GEORGE PERLEY: And printed where?

The WITNESS: Printed in Winnipeg.

Sir GEORGE PERLEY: Printed by the Council for circulation?

The WITNESS: Yes.

Sir GEORGE PERLEY: Privately or for general circulation?

[Mr. Arthur E. Darby.]



The WITNESS: For its own members, yes.

Mr. McLEAN (McLfort): Perhaps Mr. Darby could hand this in for the records, and the Committee could read it at its leisure; I do not think it is necessary to wait for him to read it now but he might deal with the salient features of it.

The WITNESS: My fear is that the proposal put forward by the Council cannot be understood without the introductory matter; this is clearing the ground in order to understand what the Council is driving at. I think if I read only the concrete suggestions, the Committee would not understand what was in the minds of the Council, and perhaps might misjudge them.

The CHAIRMAN: Go ahead.

The WITNESS: Existing legislation confers a virtual monopoly on the large chartered banks and the state itself aids them in their operation. The protection of bank shareholders and depositors by laws regulating banks has, it is true, become essential. The individual shareholder or depositor finds it impossible to exercise supervision over, or to obtain sufficient knowledge of, the banks' operations and is, therefore, unable to protect his own interests. The state has been compelled to place the banks under legal necessity to supply certain information, to maintain certain reserve funds and to comply with regulations calculated to protect their shareholders and depositors.

Confidence in the existing banks—and confidence is the basis of all banking operations—has been maintained by this legislation. But the ability of the people at large to establish banks as and when their interest dictates has been almost completely sacrificed. Regulation by the state bids fair to develop a monopoly in banking which may ultimately compel state ownership and operation of banks. If private initiative is to be invoked in the solution of the credit and banking needs of agriculturists and other classes similarly placed, those engaging in the enterprise must be prepared to accept its risks along with its benefits and legislative regulation must be relaxed sufficiently to enable private enterprise to be applied under favourable conditions. The state must either provide banking institutions adequate to the needs of the people, or it must so frame its regulatory legislation as to enable the people to provide them for themselves. To place in the possession of a few large corporations existing for private profit a quasi-monopoly which fails to satisfy the whole requirements of the people, or which has the power to refuse satisfaction except at undue cost, is an abuse of legislative power. If the State, on the other hand, places it in the power of its people to establish institutions suitable to their needs, or to set up banking facilities in competition with those already in existence, if they fail to render service or render it at undue cost, a valuable corrective is supplied even though the powers in question may never be exercised. No monopoly exists when individuals or groups are at liberty to provide their own banking services; but this liberty is not enjoyed when legislative restrictions are onerous or in practice prevent new institutions from being developed. To restore a lost liberty, or power for self-service, is not to compel action to be taken or the power to be made use of.

In the gradual evolution of the laws governing Canadian currency and banking some anomalies have inevitably arisen. Thus our metallic coinage is still provided by a royal mint belonging to the British government. Some regulatory functions in relation to banks are exercised by the Canadian Bankers' Association, some by the Treasury Board and some by the Department of Finance. In existing conditions these anomalies produce no very undesirable results; but conditions are constantly changing and legislation should be as far as possible drawn to permit of legitimate changes and developments freely taking place.

[Mr. Arthur E. Darby.]



The issuance of currency is commonly regarded as a governmental function, and while some portion of Canadian currency is provided by the Dominion government, by far the greater amount in ordinary circulation is issued by the banks themselves under conditions laid down by the law. The withdrawal from the banks of this privilege would constitute a revolution in Canadian banking, only to be justified by the existence of serious abuses. No abuse of the right to issue currency is known to exist. But circumstances may easily arise in which a national currency, in the strict sense of the term, might be required and the establishment betimes of machinery capable of supplying that requirement without dislocation of business or serious inconvenience would be a wise provision.

Similarly the double liability now resting upon bank shareholders, however suitable to existing conditions, could not be insisted upon in relation to banks founded under different circumstances or to co-operative banks. A treatment of shareholders in banks different from that of shareholders in other corporate businesses is not, in itself, very desirable nor has it been as effective as may have been anticipated. Provision for its removal if and when banks surrendered or lost the right to issue currency might reasonably be made. Consolidation of the scattered functions performed by the Treasury Board, the Department of Finance, the trustees of the gold reserve, etc., would lend greater stability and coherence to the banking system and would enable changes to be made in response to changing needs with less resistance and confusion.

In the light of these considerations, and of considerable study of banking conditions and institutions elsewhere, the following suggestions are advanced as embodying a policy which would be of benefit to the rural communities and of benefit also to the banking system of the country in its relation to the future needs of the people:

1. The establishment of a National Bank of Issue and Re-discount. In this bank stock would be taken by the Dominion government, the chartered banks in proportion to their capitalization, and, in certain circumstances, the provincial governments. To it should be transferred the duties now performed by the Treasury Board, so far as they affect those banks, and the Canadian Bankers' Association, together with the custody of the central gold reserve and the circulation redemption fund. Government banking should also be handled by the National Bank. The bank should not receive deposits from the public or carry on a general banking business in competition with the chartered banks. It should take over the Dominion note issue and the making of loans to banks such as are now made under the Finance Act, expanding this function as the need develops into a general re-discounting business similar to that done by the Federal Reserve Banks in the United States.

Ample business for a National Bank is already available, but its readiness to conduct re-discounting business—to act as a bankers' bank—will make possible the relaxation of the present quasi-monopoly enjoyed by the 11 chartered banks through the passage of legislation enabling local banks to be established where there is the genuine need and desire to establish them. This brings us to the second suggestion:

2. The Bank Act to be amended or a supplementary act passed permitting the formation of local banks with a minimum capitalization of \$35,000. Might be increased to \$50,000. These banks would not be permitted to issue notes or to make loans in excess of a given multiple of their capital. They would be required to obtain currency from the National Bank by deposit of securities and re-discounting (the National Bank maintaining an adequate gold reserve) and to deposit a percentage of their deposits with the National Bank as a reserve (say 15 or 20 per cent). In return they would enjoy the re-discounting privileges extended by the National Bank. They would be subject to strict inspection

[Mr. Arthur E. Darby.]

and the National Bank might, under safeguards, be empowered to institute a receivership and wind them up if and when improper management occurred.

This would mean the creation of a distinct class of bank, doing a local business and using national currency, whose shareholders and depositors (to a small extent) would be subject to ordinary business risks like the shareholders of any other concern. The shareholders in such banks would not be subject to the double liability; on the other hand, the banks would not be liable for note circulation and would maintain a reserve for the protection of depositors. The maintenance of a sufficient reserve against deposits should be required of the present chartered banks also.

3. Any bank chartered under the present law should continue unaffected, except by the changes resulting from the substitution of the National Bank for other regulating agencies and by the institution of a reserve against deposits. But any such bank desiring to relinquish the right of note issue should be permitted to do so, its shareholders then being relieved of the double liability.

4. To some extent the intermediate credit needs of agriculture would be met by the chartered banks under pressure of the possibility of competition from local banks, or by means of actual competition from this source, supposing the public to avail themselves of the opportunity provided. But in order to enable farmers and citizens of small means to obtain the benefit of joint credit on personal and chattel mortgage security, provincial and federal legislation should be passed enabling co-operative credit societies (short and intermediate) and people's banks to be set up. This legislation ought to be merely permissive. No pressure should be exerted to encourage premature ventures into co-operative finance. It is to be presumed, however, that, if the complaints of farmers and others against existing banking and credit agencies are well founded, they will in course of time realize the value of co-operation as the real remedy. When that takes place the legislation will direct their efforts to help themselves by joint action and liability.

Such co-operative credit societies and banks should be permitted to do a re-discounting business with the National Bank under proper regulations. If formed under provincial legislation the provinces might be required to take some amount of stock in the National Bank proportioned to the use made of it by the co-operative societies and banks.

Ample material and experience to form the basis for such proposed legislation is available. The *Caisses Populaires* of Quebec and the many examples of co-operative credit organizations should enable permissive laws to be drafted with comparative ease.

The suggestions made do not go extensively into detail. It is inevitable that innumerable points will arise in discussion of them which cannot be dealt with in a short statement. But the major issues have been touched upon and such a policy as that described would, if adopted, make a beginning with nationalizing the currency and would clear the ground of many difficulties at present imposed upon those who would endeavour to apply their own energy and initiative to the solution of their financial problems. The main consideration is to avoid too much paternalism and state intervention in the performance of economic functions. Hence the recommendation of permissive rather than mandatory measures, accompanied by relaxation of legislative restrictions productive of the existing quasi-monopoly in banking.

That Mr. Chairman, represents the policy adopted by the Canadian Council of Agriculture.

*By Mr. Ladner:*

Q. What is the proper name of the Act, Mr. Darby?—A. The Federal Farm Loans Act.



Q. To what extent does that Act solve the problems of the agriculturist who, under your memorandum, are dealt with, or cannot be dealt with by the existing banks?—A. I think, Mr. Chairman, the answer to that is that it does not solve the short term and intermediate credit problems of the farmer at all. It is the long term loan scheme based upon a mortgage. The point I want to bring out in the memorandum is this: that if you use the long term mortgage loan for short term purposes, you lead the farmer into bad financing. I rather imagine that this new scheme has been so far adopted in the provinces of Alberta and Nova Scotia, but it will not remedy the circumstances with which the memorandum primarily deals.

Q. What do you consider to be the object of the loan?—A. For productive purposes. Agricultural operations take a longer time than commercial operations. These are only sufficient to cover the reproductive purposes of the agriculturist, and the profits should be used to pay off the loans.

Q. What period do you suggest?—A. I would say that anything from one to two years would constitute an intermediate farm credit.

*By Sir George Perley:*

Q. Is there any statute under which a co-operative society can be formed?—A. I do not think there is any Federal legislation actually governing the formation of co-operative societies. Some of the provinces have such legislation, but there is no federal legislation of that character.

*By Mr. Ladner:*

Q. It is a provincial matter?—A. Yes.

*By Sir George Perley:*

Q. I remember it being discussed some years ago, very fully, in the House, but I cannot remember whether any statute was actually passed or not?—A. I think not. We had Bills before the House many times. I remember what you refer to.

Q. There was a lot of discussion about it?—A. Yes, but no legislation was passed, as far as I remember.

*By the Chairman:*

Q. Mr. Darby, each province has some loaning system of its own?—A. Yes, but the most successful system is the long-term loan based upon mortgage securities.

*By Mr. Matthews:*

Q. Can you state in general terms that the present banking system does not meet the needs of the agriculturist of the West?—A. No evidence has been given to that effect.

Q. No supporting statement; it is merely a general statement?—A. Quite.

Q. You just state that something is required in addition to the present system; is that purely an assumption?—A. There has been a mass of experience brought to the attention of the Canadian Council of Agriculture. I think the hon. member will find that in the West there is a very general appreciation of the fact that their intermediate term credits are not being taken care of along proper lines, under the present system. You will find complaints that individuals cannot get money from the banks. The banks give certain reasons for not making the loans. We have been getting a number of instances of extreme hardship.

[Mr. Arthur E. Darby.]



*By the Chairman:*

Q. At the beginning of your statement, I think you stated that one of the provincial organizations was the Saskatchewan organization, which at the time this resolution was passed, was a member, but is not now a member. It not being a member now, is no reflection upon this memorandum?—A. None whatever.

Q. It is only a difference of opinion that might exist?—A. It arose, Mr. Chairman, out of two different farmers' bodies in Saskatchewan. An entirely new body was created, which was not in membership with the Council. Generally speaking, that represents the view of the farmers of Saskatchewan as well as others.

*By Mr. Woodsworth:*

Q. I think the Saskatchewan farmers should go a little farther than that. What do you say to that?—A. I think the Alberta farmers would go a great deal farther than this memorandum goes.

*By the Chairman:*

Q. Money is not so hard now?—A. No, sir. It is a question of devising machinery which will really serve the productive operations of the agriculturist. There is a handicap in the non-existence of these institutions.

*By Mr. Cayley:*

Q. The provinces do not deal with that?—A. I think banking is specifically excepted, from the operations of the Act. There are certain provincial institutions which provide long-term loans, in Saskatchewan and Manitoba, and in most of the other provinces, but they are not operative.

*By Mr. Matthews:*

Q. Would you care to state to the Committee what rate of interest the banks are charging in the West to-day, to farmers?—A. I have no information whatever as to the banks. I know the loan companies' rates of interest. It would certainly be eight per cent. The prevailing mortgage loan rate of interest in Manitoba at any rate to-day on good risks is seven per cent.

*By the Chairman:*

Q. May it not be that the rate is somewhat higher than it ought to be, on account of local legislation, which makes farm loans not as desirable as they should be?—A. That is one cause.

*By Mr. Ladner:*

Q. The Canadian Council of Agriculture was favourable to the establishment of a Federal Reserve Bank for re-discounting?—A. Yes.

Q. In such a case, how would you propose to organize the management or the directors?—A. We have not gone extensively into the details. We imagine that once the principle is accepted, the establishment of the actual machinery would not be a difficult matter, in view of the existence of similar banks in Great Britain and in the United States of America.

Q. We found in 1923 that that would be a very very important matter. The point would be, to what extent would such a bank be controlled by the existing banks, or whether it should be a Federal bank; my point is whether your Council has considered such a question, and if so, whether they have any suggestions to offer?—A. I think we have considered that specifically.

*By Mr. Woodsworth:*

Q. I notice that Mr. Darby suggests that a plan should be adopted such as the Federal Reserve, that is, that stock should be taken by the banks in proportion to their business. Might the result not be the same in that case, as I understand is the case on the other side, that the authority rests very largely in the hands of the banks and particularly in the hands of the large banks?—A. I think you must have the central authority in some hands. I cannot imagine it being in better hands than experienced bankers. Banking is a trade, and must be carried on along trade principles. I cannot imagine that any other kind of control would be acceptable. In addition to that, we have the experience of the United States in the last two years which has been pretty conclusive upon that point. I would go so far as to say that the Federal Reserve Bank, and the Bank of England have had an enormous and beneficent influence throughout the world.

*By Mr. McLean (Melfort):*

Q. Would you mind describing or accounting for the extreme deflation of the American farmer as compared with the comparatively sound conditions in Canadian agriculture, in its relationship to the Canadian banking system?—A. In what period?

Q. Say in the last five or six years?—A. I would say this, that a large proportion of that ground was covered in the evidence given to this committee in previous years. I would not be prepared to discuss the question of how far the Federal Reserve bank system has been responsible for or at the bottom of these increased prices. I think that is a very difficult question to deal with and hard to tie up, as a matter of fact.

Q. My brief study of the Federal Reserve in the United States, in the past two years, indicates to me that it has been unsatisfactory in helping the farmers on the land. I do not pretend to pose as an authority, but I would like to ask you what you think of it, during those two years, as compared with our perhaps more careful banking system, and smaller or lesser deflations and sounder conditions in agriculture to-day, in western Canada; do you agree that the Federal Reserve Bank has not been satisfactory in the last two years?—A. I think it is only fair to say that in the last two years my attention has been directed to matters other than banks, but I would say that there are a great many factors operating in the United States, other than the factors named, and you have to get at all the factors concerned, in order to arrive at a definite conclusion.

*By Mr. Robinson:*

Q. Can you say anything about the loan companies of Alberta?—A. I think, if I may say so, that the facts in regard to the actions of certain loan companies in Alberta, are fairly well known. They were dealt with at the last meetings of this Committee, and are on record. They have reference to the legislation referred to a few minutes ago.

Q. I thought it was on account of the Government issuing some telephone debentures, which would be considered a first mortgage?—A. It hardly seems to me to touch the original question at issue. It applies to a particular province.

Q. They cannot borrow from the banks on mortgages?—A. Quite so. Undoubtedly it has affected the situation. But it does not affect the whole question as dealt with in my memorandum.

The Committee then adjourned until Thursday, March 15, 1928, at 11 o'clock.

COMMITTEE ROOM, No. 429,  
HOUSE OF COMMONS,  
March 15, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, A.M., the Chairman, Mr. F. W. Hay, presiding.

Albert E. Phipps, called and sworn.

The CHAIRMAN: Mr. Phipps, perhaps we ought to submit to you a series of questions, but it is open to you to go on as you please. You will find that there will be ample questions submitted to you later on. Would you prefer just to make a statement?

The WITNESS: Yes, I would, Mr. Chairman. I have one here which I will read:

In the beginning of organized banking in Canada over one hundred years ago, three features which have persisted up to the present characterized the system:

- (1) The establishment of branches;
- (2) Note issues against the bank's assets;
- (3) No lending on mortgage of real estate.

All three were essential, if the growing country was to have adequate and continued banking services. The centres of population must supply banking capital for the outposts—hence branches; banks must have till money free of cost, if banking facilities were to be afforded in newly established communities—hence the note issue privilege; and there must be no lending on real estate because land speculation was rife and liquidating was essential and the antecedent experience in the United States of lending against land had brought financial disaster and would soon have had a like result in Canada.

Other features have followed. Special forms of security, to facilitate the marketing of timber in the early days and of wheat, wood products and manufactures in these latter days, have been devised so that the system is an evolution expanding or changing from time to time to meet the actual conditions in the development of the country.

The whole system has been exhaustively examined by Parliament within the past five years and nothing has arisen since the last amendments were made which would seem to call for structural changes. In fact the system, it is submitted, is meeting the banking needs of the Country adequately.

#### BANK NOTE ISSUE PRIVILEGE

The bank note issue privilege has been mentioned. In some respects this has been from the standpoint of the national interest a very important feature of our present system and if abolished, certain results would inevitably follow. By way of preliminary it should be said that the Government notes, backed substantially by gold, are the main currency of the country—the backbone of our currency system. All adjustments of the trade and business of the country that go through the banks are settled in the Government's currency. If one bank, in the operation of

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the clearing house system, where virtually all commercial transactions in the Country are adjusted, owes another bank, and included in this obligation will be its own notes held by the creditor bank, the settlement is made in Dominion notes. Dominion notes in turn represent gold because they are convertible into gold. Thus it is a mistake to suppose that the currency of the banks, important in some respects as it is, is the controlling feature of our currency system. The Government's issue is the real and only legal tender in the form of note currency of this Country.

But there is a function of great importance to this country which the bank note issues perform. The banks have their own notes in the tills of every branch. They are not a liability there; it costs nothing in the way of interest charge to carry them. Depositors desiring cash are given the bank's own notes, and they also are the basis for moderate loans, though soon after the loan is made or the depositor makes a purchase with the notes he has received they have to be redeemed in Dominion notes in the clearing settlements. In many communities in this country, if the banks had to carry in their branches till money in Dominion notes or the notes of any central institution, for which the banks would have to pay cash, then these communities would of necessity not have banking facilities, for the business would be conducted at a loss. In other words, the local community could not support a branch bank if the interest on the unused cash in the bank's possession had to be paid out of the profits there received. It would therefore have a revolutionary effect in Canadian banking to take away the note issue privilege against paid-up capital, because many communities now receiving banking facilities would be deprived of these facilities and new communities which are constantly growing up, particularly in the Prairie Provinces, would for many years be without the banking facilities which they would otherwise have under the present system of note issue.

Finally, Canadian bank notes to-day have the hallmark of a genuine currency. The value of the bank note is unquestioned and with the protective features now in The Bank Act, it is inconceivable that any holder of it would ever sustain a loss.

#### CENTRAL BANK PROPOSAL

The establishment of a central bank of rediscount, under the control of the Government, has been suggested. Anyone familiar with the development of our present system knows that there is to-day in Canada in effect a central bank of rediscount, with scarcely a dollar of additional cost and without any of the elaborate machinery which characterizes such institutions in other countries. Under the Finance Act the banks with the greatest ease can now obtain from the Treasury Board Dominion notes against securities, to furnish currency for the movement of the crops, and other natural products, or finished manufactures from the point of production to the consumer.

The banks have to pay interest to the Government on these advances. In consequence, the banks repay the Government the currency as fast as possible; just so soon as the particular operation for which the Dominion notes were borrowed is complete, the bank returns the notes to the Government. Thus the tendency to inflation is controlled, and the history of the operation of The Finance Act both before and since the Act was made a permanent part of the financial structure of the Country in 1923 shows that its operations have been kept within moderate and

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legitimate bounds. Even before The Finance Act, our system, as distinguished from the banking system of the United States before the Federal Reserve Act, provided a flexible currency—that is to say the bank note issues could be enlarged within reasonable limits to meet seasonal requirements; and when these were taken care of the issue would automatically contract, but with the added Finance Act, now a permanent part of our monetary system, nothing in the way of legitimate trade or expansion can ever be hampered by a lack of currency.

#### THE COMMONWEALTH BANK OF AUSTRALIA

Citation has been made of a central banking institution, the Commonwealth Bank of Australia, and emphasis has been laid on the direct advantage it is to the State in the profits it turns over to the Treasury.

The Commonwealth Bank of Australia was established about the year 1912, legislation therefor being passed in the year 1911.

It is scarcely possible to make a banking comparison between Australia and Canada, owing to the great difference in conditions. The Commonwealth Bank, while authorized to carry on a general banking business, it should be said at the outset, does this to a limited extent only. The last published available statement of the Commonwealth Bank dated 30th June, 1927, shows total assets of £139,000,000 and of this great total approximately £79,000,000 were in Government and other fixed securities. The total amount of real banking business among its assets was £19,500,000 in the form of bills receivable, bills discounted, loans and advances, and other sums due to the bank. From this it will be apparent that the Commonwealth Bank is not a commercial institution but has been used chiefly as a means for supplying loans to the Government of the Commonwealth and various other governmental agencies.

Reference has been made to the profit to the State which the Commonwealth Bank brings. For the year ended 30th June, 1927, the profits from the banking business, apart from the note issue profit, have been declared at £580,000, the bulk of which was made through the taking in of deposits at a low rate of interest and investing in securities at a higher. One half of these profits went to the Reserve Fund of the bank; and the other half was contributed to the national sinking fund.

During the like period the sum of £1,136,000 was derived from the Note Issue Department, the Note Issue Department and the general business of the bank being kept entirely separate. Of this sum £852,000, or something over \$4,000,000, went to the Commonwealth Treasury. These profits of the Note Issue Department were wholly derived from the annual dividends accruing from £25,000,000 of debentures and other securities which are held in that Department against the issues of the Commonwealth Bank's notes.

It will probably be a matter of surprise to many to know that Canada derived from its note issues and from the tax on circulation of bank note issues an advantage greater than \$4,000,000 during the past year. The Government of this country has in fact received \$63,500,000 for its note issues which sum has not been invested in securities as in Australia but has been used to meet current obligations of the Government from time to time. The Government in this way avoided the borrowing and payment of interest on this sum. Of this \$63,500,000, \$41,000,000 was received by the Government from the banks in exchange for its notes during the early part of the war period. The first of these free issues dates from Confederation as at the Union \$2,400,000 or there-

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abouts of uncovered issues, the liability therefor being assumed by the Dominion, were outstanding. If the Government of Canada had taken the credits created in its favour in the banks in exchange for these issues and invested in securities as in the Australian case, it would be receiving for Consolidated Fund Account, the borrowing rate at the time these emissions were made being considered, at least \$3,000,000 per year in interest. As it is, the Government of Canada has had the use, free of interest, of this sum. Its currency issues are nevertheless just as good as the Australian for its promise to pay is as good a security as the debentures which the Commonwealth Bank's Note Issue Department holds against its issues.

In addition to the \$3,000,000 referred to, there is approximately \$1,200,000 which the Government of Canada annually gets in the 1 per cent tax upon bank notes in circulation against capital, and the income derived from the issue of Government notes to the banks under the Finance Act, as well as the tax on excess circulation of the banks. It is submitted that the Government of Canada has directly and indirectly derived and is deriving from the note currency of the country advantages out of its own currency and the circulation privilege of the banks that compare favourably with those derived in recent years by the Commonwealth of Australia from its control of currency issues. In this connection it should be noted that the Commonwealth Bank is paid by the Government of Australia for many services such as are rendered by the banks of Canada to the Government of this country free of charge.

#### UNIT BANKS WITH LIMITED CAPITAL

As a collateral to the Central Bank idea it has been suggested in some quarters that if a central bank were in operation and legislation were introduced permitting the establishment of banks with a minimum capitalization of \$50,000, these institutions having the right and privilege of obtaining currency from the national central bank by deposit of securities and rediscounting, great advantage would result to agricultural interests. (See "Currency and Banking Reform" proposals by A. E. Darby, considered and approved by the Canadian Council of Agriculture a year or two ago.)

The record in recent years of small banks in the United States in agricultural communities is one of disaster. In the first place the banks with the small capitalization rarely, if ever, have securities which measure up to the rediscount requirements of the Federal Reserve System, so they cannot take advantage of the system. Between the years 1921 and 1926 inclusive, 2,687 State banks failed in the United States, the most of these in agricultural communities with conditions comparable to those in the Prairie Provinces. For example, there were

- 279 failures in North Dakota
- 236 failures in Kansas
- 212 failures in South Dakota
- 186 failures in Minnesota
- 145 failures in Missouri
- 130 failures in Montana.

These are the figures presented by the Economic Policy Commission of the American Bankers' Association and published in the November, 1927, issue of the journal of that association.

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Edmund Platt, Vice-Governor of the Federal Reserve Board, Washington, discussing in the Trust Companies Publication, June, 1925, this great volume of failures "in our agricultural states," says:—

It seems to me that the remedy is clearly suggested by the evidence presented. We must have larger banks, banks large enough to afford good management and large enough to spread their risks over a variety of industries and over a considerable territory. The larger banks have a better chance to weather financial storms because they are able to secure, and generally do secure, good management, and also because they are not under the same temptation to put all their eggs in one basket. The large bank serves, as a rule, a greater variety of industries than a small bank and often spreads its loans so widely that it cannot be vitally affected by disaster to any one industry.

*Branch Banking and Safeguard.*—If we must have larger banks in order to afford good management and to give the management a fair chance for success then we must either subject many people living in small communities, or in rather thinly settled agricultural communities to great inconveniences or we must provide them with banking accommodation through branches—not necessarily on any very large scale as in Canada—but on a scale large enough to serve the people adequately and safely.

#### THE GOVERNMENT IN THE LENDING BUSINESS

One suggestion has been put forward—that if Canada had a central banking system, strong commercial organizations might pledge their securities directly with the Government bank and receive Dominion notes with which to carry on operations without the intervention of any bank. The Wheat Pool has been instanced as one organization with which this might be done. If this privilege were granted to the Wheat Pool, surely it could not be denied to its rivals, the non-pool grain companies, which are equally worthy organizations, and if to these, why not to every kind of organization with supposed creditable financial standing? Are the people of Canada prepared for the risks incident to such a radical departure from currency control and safety, and for a form of banking not practised in any country, I believe, in the world to-day?

Let us examine the proposal: Under the present system the Government obtains the endorsement of the bank and has a first claim upon all of the borrowing bank's assets, in addition to the particular assets pledged. That makes the Government fully secure. The bank to-day takes the risk of lending. While the Wheat Pool has been prosperous in the few years it has been operating, agricultural pools on this continent have not had an unbroken record of financial success. It is believed that the people of this country are not willing to have the currency of the country involved in the risks and hazards attending the conduct and operation of any commercial or trading organization, or combination of these.

#### CONTROL OF CREDIT

Emphasis has been laid upon the supposed control of credit by bankers. In a limited sense bankers control credit. That is to say, the banker can and does grant or withhold credit according as the enterprise seeking credit in his opinion will be successful from the standpoint

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of the borrower or the reverse. The banker is primarily and mainly concerned about the safety of his advances and the certainty that the advances will be returned within a reasonable time with adequate interest. He is not thinking about the volume of credit in the country nor the effect which the granting or withholding of credit in the particular instance will have upon the price level of commodities in the country. The banker, too, when he judges that speculation in any of its varying forms is getting beyond the safety line, limits credit in that direction, not because he wishes to discriminate against any class but because he believes the bank's advances are imperilled.

It is proposed that the State should through some such agency as a central bank control credit, and thus frustrate the designs of evil-minded capitalists with banking control in their hands against weaker industries or commercial interests. I am convinced that there is a great fallacy in the assumption that there ever has been in Canada any improper control of banking credit for such purposes. Intimacy for a good many years with banking operations in this country has never brought to my attention the slightest suspicion that any capitalists or group of capitalists have in fact prevented or attempted to prevent legitimate enterprise from receiving a fair measure of banking credit. If such were the fact anywhere in Canadian banking operations every general manager in the country would be aware of it.

Why suggest legislation, therefore, for supposed evils which are really non-existent?

With regard to the control of banking credit and incidentally prices of commodities, a very eminent banker and statesman in the United States, Mr. Secretary Mellon, recently said:—

Neither the Federal Reserve System nor any other system can control prices; while credit is one factor in influencing prices, it is neither the only factor nor the controlling one.

Governor Harding, for a number of years head of the Federal Reserve System in the United States, recently said in regard to a proposal that Congress should direct the Federal Reserve authorities to shape their policy so as to maintain the price level of commodities:—

Do not understand me as being out of sympathy with the objects of the Bill which Representative Strong has introduced in the House. I have merely attempted to give some of my reasons for believing that the object desired cannot be accomplished by the means proposed.

For these reasons I repeat that the Canadian banking system is meeting the banking needs of the country adequately and well.

That, gentlemen, is the statement I have prepared.

*By Hon. Mr. Stevens:*

Q. Mr. Phipps, before you are questioned by members of the Committee who have prepared a series of questions, may I ask what interest is being paid to the Government on advances under the Finance Act?—A. It has varied from five to three and three-quarters per cent; at present it is three and three-quarters.

*By Mr. Ladner:*

Q. Mr. Phipps, there are one or two questions I wish to ask you. Some of us are interested in the possibility of the establishment of something in the nature

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of a Federal Reserve Bank in Canada, or a central bank of rediscount under the Finance Act, and then working out something on the principles of the Federal Reserve banking system of the United States. In 1923, in the Banking and Commerce Committee, a proposal was put before that Committee by myself, and some of the functions of the Federal Reserve Bank, which would be applicable in Canada were outlined. It is on those functions that I wish to ask you certain questions, as briefly as I can. But, first, I want to get from you how you account for the variation in the number of banks. According to the record I have, in 1841 we had ten banks in Canada. To-day I believe we have eleven?—A. I think that is right.

Q. In 1867 we had twenty-two. In 1890 there were forty banks in Canada; quite a wide field of competition. In 1900 there were thirty-six banks. In 1910, twenty-eight; in 1922, or 1923, there were seventeen; and to-day there are eleven. How do you account for such an alteration in the banking operations of the country?—A. I would say that that is almost direct evidence that a regional bank does not serve the purposes of the country adequately.

Q. And in your opinion, is it desirable that we should have a smaller number of banks, and that a smaller number would be more useful?—A. I would not say a smaller number than there are at present; but I would say the present number of banks is much more capable of handling the business properly than the forty banks of a few years ago.

Q. Why do you limit the number to eleven?—A. I am not limiting the number.

Q. Why do you say the present number is sufficient?—A. I am not saying that it is more than sufficient.

Q. Will you state whether there is some reason for any particular number, or whether the banking service would be improved in a change of the number?—A. I think the banking system will adjust itself to the number of banks that is required, and that is what the system has been doing.

Q. Do you think there is any likelihood of there being a lesser number?—A. I do not know anything about that. You can judge the future as well as I can, Mr. Ladner.

Q. Do you think that the existence of a Federal Reserve Bank of rediscount, something after the fashion of the United States, would have a tendency to stabilize, or rather to strengthen, the smaller banks in Canada to-day?—A. No.

Q. You think it would have no effect?—A. No.

Q. Then, Mr. Phipps, how do you account for the fact that on the failure of the Home Bank, a very large transfer was made in deposits in the smaller banks over to the larger banks?—A. That is a merely temporary affair. A Federal Reserve Bank would not have stopped that.

Q. Would a Federal Reserve Bank strengthen the position of the smaller banks?—A. No. We have all the support we want under the Finance Act.

Q. To what extent is the Finance Act used?—A. To the extent that it is required.

Q. But I am told that that is very limited?—A. Very limited. The same would refer to a Federal Reserve Bank of rediscount.

Q. I am told that four out of the total number of banks in Canada control 70 per cent of the entire deposits of the Canadian public. Do you know about that?—A. I have not figured it out. It is approximately right, I should think. But, I would like to correct myself there. The larger banks draw a great many of their deposits from abroad. I do not know whether you have figured that.



Q. Pardon me, I did not hear your answer?—A. The larger banks draw a considerable proportion of their deposits from abroad. I do not know whether you have taken that into consideration.

Q. How would that affect the consideration?—A. There would not be so large a proportion of the deposits in Canada.

Q. But would not they control a proportionate amount of the business?—A. You are confusing the business abroad with the business in Canada.

Q. No, but you say a large proportion of those deposits are deposits from abroad?—A. Yes. Have you made that distinction in your figures? I have not checked it up.

Q. No, I have not made that distinction. These are just total deposits. But, the point I am making is that, having received the deposits, they would not be any good to the bank unless it used them in the banking business, would they?—A. No.

Q. And therefore, they would, in that proportion be used in the business of the country?—A. No, in this country and abroad. The Royal Bank, for instance, has a very large business in Cuba and the West Indies, and they use their foreign deposits there.

Q. Would not these four control 70 per cent of the business?—A. I would not think so.

Q. Would you not say the four largest banks do about 70 per cent of the business in Canada?—A. No, I do not think so.

The CHAIRMAN: May I interrupt you there. We have Mr. Ross, Secretary of the Dominion Bankers' Association, also present. Perhaps if we do not get them to-day, these details might be given later by him.

WITNESS: Yes, we can give you these details.

*By Mr. Ladner:*

Q. Now, the liabilities to the public; I can preface my remarks with the suggestion that it indicates the activity of the business in the country?—A. Yes.

Q. Reading now from the Journals of the House of Commons of 1923, Vol. 60 at page 98, an exhibit giving the figures of liabilities to the public at different dates. At the end of the year, 1904, the total liabilities of all the banks were \$587,000,000.

Q. In 1908, \$1,814,000,000, in 1912 \$1,292,000,000. I am leaving out the odd figures. In 1916, \$1,716,000,000. In 1920, \$2,835,000,000. That was the big year, of course. In 1920 there was great activity. Then in 1922, \$2,347,000,000. Now, I see you have the *Gazette* record there?—A. Yes, for January.

Q. On the 31st of December, 1927, the total liabilities amounted to \$3,217,000,000. Now, Mr. Phipps, that is the extent of the business that is practically being done. Now, if you take the paid-up capital of the banks, you find that in 1890 we had \$60,000,000, and in 1900, \$67,000,000, in 1910, \$100,000,000, and in 1923, \$123,000,000. I do not know what the reserve capital was. At the end of 1927, the paid-up capital is \$122,764,000, which is about the same as 1923? A. Yes.

Q. And the reserve has increased at the same time to \$133,566,000. Now, if you take the amount of capital which the banks had in their bank premises, which is locked up in their bank premises, and which they require in their business, I find that in 1890 this stood at \$4,000,000, in 1900 at \$6,500,000; in 1910, \$25,000,000, in 1923, \$70,000,000, plus \$6,000,000 in other real estate. I know I am giving you a lot of figures, but the general trend will enable you to base your answer on my question. Now, the bank premises at the end of December, 1927, stood at \$69,000,000. The point is this: If you can recall generally the

[Mr. Albert E. Phipps.]

tendency, with the great increase of liabilities to the public, reaching now to \$3,217,000,000, the increase in the capital, which the bank uses, has been relatively very small during the course of the last forty years, and the number of banks has decreased. Now, supposing our country prospers and goes ahead during the next twenty years, as it has done in the last twenty years, and you see how phenomenal that increase is—there is an increase in liabilities to the public from \$800,000,000 to \$3,200,000,000, or four times—in your judgment as an experienced man, do you think the existing machinery of the banks, without such an institution as a Federal Reserve Bank, is sufficient to take care of that business in the future?—A. If you will leave the assistance of the Federal Reserve system out of that question, I will be better able to answer it.

Q. Leave that out, then?—A. I think the banking capital would prove sufficient, or it would necessarily be expanded. I understand that the capital of the English banks at the present time has a much lower ratio to their liabilities to the public than the Canadian has. I would not say that we will not have to increase our capital if the business increases four-fold, but the fact is that in the last four-fold increase, it has not been necessary.

Q. Do you not think that in the event of a further increase in business, such as I have indicated here, it is desirable that the capital should be increased?—A. I won't say that.

Q. Do you think the Finance Act, with the advantages which it now provides to the banks could or would be used more extensively in the future with an increase of business?—A. Well, as I said before, you can judge the future as well as I can, Mr. Ladner, but personally, I do not think it would be used very much more.

Q. Basing our prognostication of the development in the future, upon the actuality of the past, that is the only indication you have?—A. I was just thinking for the moment that although the business of the United States is expanding very greatly, the use that the banks are making of the Federal Reserve Bank as a means of rediscount, is getting less.

Q. But that is due to the accumulation of wealth and capital is it not?—A. I do not know what it is due to. If the situation is the same as you appear to be describing to me, yet the use of the Federal Reserve Bank is getting less.

Hon. Mr. STEVENS: They have got used to the toy.

WITNESS: They have got used to the toy, and they do not need it so much.

*By Mr. Ladner:*

Q. So far as that is concerned, you would not say that the Federal Reserve Bank of the United States has not been of enormous assistance to the citizens of the country?—A. I submit that the conditions are entirely different.

Q. It has been of use?—A. It has, undoubtedly.

Q. And the necessity in the United States is the same now as before?—A. So far as their system is concerned, yes.

*By Mr. Woodsworth:*

Q. So far as the United States is concerned, it is no toy over there, is it?—A. No, the use of it for rediscounting purposes is more or less of a toy, perhaps.

*By Mr. Ladner:*

Q. The banks in Canada do use the Government, by virtue of the Finance Act, as a bank of rediscount, do they not?—A. Yes.

[Mr. Albert E. Phipps.]



Q. Now, is that Finance Act necessary? Could that be eliminated? Would it be advantageous to the country to wipe it out?—A. No, I do not think so. I think it is here to stay.

Q. Why is it necessary?—A. As a safeguard.

Q. It can act as a rediscount to the banks?—A. Exactly.

Q. And it is advantageous in that way?—A. Absolutely.

Q. The Act does fill that need which the banks of the country may require; if we had a great expansion in the prosperity of the country—as my good friend Mr. Robb indicates we are about to have—

Hon. Mr. ROBB: Oh, we have.

*By Mr. Ladner:*

Q. Now, this is the end of my question, as I do not want to monopolize the attention of the Committee; I propose to file a very short memorandum giving the functions of a proposed Federal Reserve Bank of Canada. I will file it in order that subsequent witnesses may be questioned upon the lines of these principles. I will just read these clauses to the Committee, as they are very short.

### EXHIBIT NO. 1

#### FUNCTIONS OF PROPOSED FEDERAL RESERVE BANK OF CANADA

The Federal Reserve Bank of Canada should exercise the following functions:—

- (a) To act as a bank of re-discount dealing only with banks;
- (b) To have the right of open market operations in much the same way as is now done by the Federal Reserve Bank of the United States and for the same purposes;
- (c) To act as a credit agent for banks in international banking in order to facilitate trade and commerce between Canada and other parts of the world, on much the same principle as the Bank of England;
- (d) To function as the Government now does with respect to all Dominion Note Issues reserving however, power of the Finance Department to check over and make certain of the proper securities being held for such issue. In addition to the Gold security to the Federal Reserve Notes, these notes also to be backed as they are now by the Dominion Government thus giving complete stability as far as note issue is concerned;
- (e) To act as the bankers of fiscal agents of the Government. In this way the Government has the power and united strength of all the banking institutions of the country in times of crisis and the banks have a far better opportunity as members of the Federal Reserve Bank in sharing in business of the Government. It does not seem fair that one bank should monopolize the business of the Government and to a large extent, as a private institution dominate the financial structure of Canada;
- (f) To have no greater net profits than sufficient to pay operating expenses and six per cent on the capital investment. If there are any other profits these are to go to the Government for the benefit of the people of Canada and also within reason to



restrain banks, through its branches, in remote portions of the country from charging unreasonably high rates of interest. Such restraint could be practised by the Federal Reserve Bank loaning money (under its open market privileges) direct to the people at a low rate of interest;

- (g) To act as a disciplinary body for banks which might be disposed to engage in questionable undertakings on a large scale or depart from the usual banking practices so as to endanger the deposits of the general public and the shareholders of the bank. The Federal Board to have the necessary powers through committees to investigate the member banks, their business operations, their assets and liabilities, with a view of protecting the public;
- (h) To exercise, through its boards of directors, inspection in a general way for unusual financial operations of the member and other banks;
- (i) To carry out the duties, generally speaking, such as are now performed by the Treasury Board and the trustees of the gold reserve and the Department of Finance with respect to note issue, pledge of securities and banking operations under the Finance Act of 1914 and all other banking functions operated by the Department of Finance, with the exception of such supervision and control by the Government for the Federal Reserve Bank as circumstances may warrant to protect the public interest in connection with those matters.

Now, Mr. Phipps, have we any system of handing over market operations as the United States does?—A. I do not get the drift of your question.

Q. In the States, if there is a restricted line of credit, and the rate of interest goes up too high, it is only on those occasions that the Federal Reserve Bank steps in, in the interest of the public, to control the rate of interest, and provide the funds. You know that?—A. Yes.

Q. Have you any such provisions in Canada under our Canadian Banking system?—A. We do not require them. Our banks are the same bank right across the country.

Q. But supposing there was only one bank. In parts of Canada, there are certain banks in certain localities, and perhaps the rate of interest goes up? Or do they?—A. Very little. We do not require that.

Q. You think a particular bank, of its own volition, would not put up a high rate of interest?—A. Precisely.

The CHAIRMAN: I gather that there is no limit to which they can carry it, if they so desire.

*By Mr. Ladner:*

Q. If they want to, they could put on any charge they could get?—A. By reason of the Bank Act they cannot recover a rate of interest in excess of seven per cent.

Q. I agree with you that our banks do not generally do it?—A. No.

Q. That is a matter of good business. Referring to the memorandum which I have filed, in the United States, the Federal Reserve Bank acts as a fiscal agent of the Government, does it not?—A. Yes, I believe so.

[Mr. Albert E. Phipps.]

Q. How is that done here?—A. The Bank of Montreal acts largely as a Government agent, but all the banks act as agents of the Government. They collect the revenue from the customs and so on, and remit it to Ottawa free of charge.

Mr. LADNER: That is all I wish to ask, Mr. Chairman.

*By the Chairman:*

Q. Mr. Phipps, under the Treasury Act, is it seasonable borrowings that you may take from the Government?—A. You may take it at any time. You have to state the purpose to the Chairman of the Board.

*By Sir George Perley:*

Q. Do I understand Mr. Phipps to say that he feels that the present arrangements under the Finance Act are sufficient? Does the Finance Act here work out satisfactorily for the provision of actual credit when required just as well as the Federal Reserve system does in the United States?—A. Just as well as any system in the world, Sir George.

*By the Chairman:*

Q. The Bankers' Association is an association of chartered banks in Canada that dovetails in more or less with the Government, with their charters, of necessity. May I ask them, is it compulsory that a chartered bank of Canada shall be a member of the Canadian Bankers' Association?—A. Yes. By law, they are members.

Q. Can they withdraw?—A. I think not.

Q. Can they withdraw?—A. I think not. By the Act itself, they are made members; every chartered bank is made a member.

Q. Then I suppose that your Bankers' Association,—you are a member of the Association,—between your bank and the other chartered banks there is no interchange of credits with customers at all as to whether you are lending to any one—there would be no reason, if I borrow from bank "A" that bank "B" would know?—A. Not of necessity, unless you put it in your statement.

Q. But if I did not, there is no knowledge of interchange of credit?—A. Oh, no.

Q. Then, if one of your directors wants to borrow for his own purposes, he sits without the Board; I understand that is usual?—A. That is the law.

Q. Now, suppose a competitor of his, engaged in merchandising and manufacturing wishes to borrow, would it be quite within his right to sit on the Board to pass credits to a competitor of his?—A. It is within his right, but in practice in our bank—I cannot speak for other banks—it is not done. We have a case in point where one of our directors has a competitor whose business comes up for a line of credit. By direction, that director is told that that business is coming up on a certain day, and he absents himself from the Board.

Q. But that is not under a by-law?—A. No, the director has a right to know, if he wants to.

Q. You have no power to begin a loan under a chattel mortgage?—A. No. Except on Western farmers' livestock.

Q. That would be under Section 88 of the Bank Act?—A. Yes, Section 88.

Q. In your opinion would it be helpful in making loans if you were empowered to grant credits on first a chattel mortgage, and then on mortgages?—A. No, I do not think so.

Q. A loan having once been made, you may take these securities?—A. Yes.

Q. But on an initial loan, you are not able to do it under your charter?—A. No.

Q. Would it be helpful to Canadian banks if that were permitted?—A. No.

[Mr. Albert E. Phipps.]



*By Mr. Woodsworth:*

Q. Mr. Chairman, there are a few questions I would like to ask. Under the Finance Act, what classes of securities are usually deposited?—A. You will have to ask the Treasury Board that. I know what securities may be deposited, but you will have to ask the Treasury what are deposited. We have not borrowed, but we keep securities put up so that we could draw, as a matter of protection, and we put up Dominion of Canada Government Bonds.

Q. You do not know what check there is on the value of such securities?—

Q. What determines the rate?—A. The Treasury Board.

Q. Perhaps we had better get that from the Treasury Board?—A. Yes.

Q. In the case of advances, what interest is paid?—A. To the Treasury Board?

Q. Yes.—A. Three and three-quarters per cent at present.

Q. That varies?—A. It has varied from five per cent to three and three-quarters, in my recollection.

Q. What determines the rate?—A. The Treasury Board.

Q. Are you aware what makes the variation in the rate from time to time?

—A. I have never been at the Treasury Board, and I have never asked for the variations.

✓ Q. What would be the effect of the variation in the rate?—A. It should make credit easier, if it goes down, or more difficult if it goes up.

Q. Is that an effective control over credit?—A. It could be, Mr. Woodsworth. But, under the circumstances there has not been that nature or that kind of control required in Canada.

Q. You think it would be possible to make that rate of discount an effective control?—A. Absolutely.

Q. In the advances which are made, in what denominations are the notes issued?—A. As I say, we have never borrowed, but I know they are not issued in denominations of less than a thousand, and probably \$50,000, to a greater extent.

Q. Are there no smaller issues than that?—A. Not unless there is change required.

Q. Those issues do not go actually into circulation?—A. No. May I go on to say, Mr. Woodsworth, as to that: they enable the banks to circulate their own notes by placing those in the central gold reserve. The smaller reach circulation.

Q. You were speaking about note issue privileges, and you said the note issues were backed by gold?—A. The Dominion note issues?

Q. Yes, to what extent?—A. It is about 50 per cent, or 52; or more than that, 57 I think.

Q. Of what practical value is that?—A. A sense of security. It is a real security and it gives confidence.

Q. It is largely psychological?—A. No, it has got to be there, or the sense of security would not be there.

Q. What proportion of loans is given as a matter of fact in bank notes?—A. I do not think anybody could answer that question, Mr. Woodsworth. I cannot.

Q. I ask it because you say, in referring to the necessity of a branch banking system, that it would be impossible for a local bank to give adequate facilities if it were not connected with other and larger banks?—A. I would say that in the branches of that character, 50 per cent at least of the loans to the farmers are handed out in notes.

Q. Is there any record of that?—A. No; I am going by my experience in those branches.

[Mr. Albert E. Phipps.]



Q. Is there any record from which we could obtain that information?—A. No, there is no record kept. A farmer comes in and borrows money; he puts it to his credit or takes it in cash, and I would say in 50 per cent he takes it in cash. I am basing that on my actual experience in branches.

Q. You referred to the banks paying interest to the Government for advances, and you said that the tendency to inflation was thus controlled?—A. Yes.

Q. In what way?—A. The interest which is paid for advances under the Finance Act is high enough to make that money the most expensive money that a bank uses, so that the margin of profit on that money is the smallest margin that we get and so we naturally keep those advances as low as possible.

Q. Your own bank has not found it necessary to go to the Government or to the Board for that purpose?—A. No.

Q. Are you not free then, as a matter of fact, to issue credit to a very considerable extent? How does the Government or the Treasury Board in any sense control your issue of credit?—A. When we issue credit, we have to pay the money. If we have not got it, we have to go to the Federal Finance Board and get it.

Q. I cannot quite see how any tendency to inflation would be controlled?—A. Because we would not want to pay that amount of interest for a borrowing.

Q. But you could continue to extend your credits, and what you could do as a bank, other banks could do?—A. That is a matter of judgment. It is a hypothetical question you are asking.

Q. Ah, yes, but it was not a hypothetical situation a few years ago, when, during the war, there was a very considerable amount of inflation?—A. Yes, but the banks were not responsible for the inflation.

Q. Who was responsible?—A. I would say, the merchants, and the manufacturers, and the people who wanted to stock up on goods and did not care what they paid for them.

Q. Well, but the banks are surely responsible for the expansion of that credit to the people. Would they go on extending, knowing that it would bring financial disaster?—A. No. They did not know that it would bring financial disaster, and it did not; but they would go on, they have got to go on following the price of goods up to enable their customers to pay for them, within reason.

Q. Then, this was not a hypothetical case; as a matter of fact, the banks did extend credits, and the result was that inflation came about?—A. No, it was not the result of the banks extending credits. Get me very clearly there. It was the result of the inflation of prices by competition among people for the good that they thought they were not going to get, in the post-war period. And the banks had, of necessity, to support their customers, to an extent. There was no one lost more heavily in the deflation than the banks, and no one was more sure that it was coming.

Q. I was speaking for the moment about the inflation. I said the banks did extend credit at that time?—A. They certainly did.

Q. And the result of such an extension of credit was, in other words, inflation?—A. I think the other way on.

Q. The point was that there was no effective control over the banks, and we did have a period of inflation?

Hon. Mr. STEVENS: Inflation of what, Mr. Woodsworth?

Mr. WOODSWORTH: Inflation of the dollar.

Hon. Mr. STEVENS: Inflation of business.

Mr. WOODSWORTH: Yes.

Hon. Mr. STEVENS: That is depreciation of the value of the dollar.

[Mr. Albert E. Phipps.]

The CHAIRMAN: Some one said it was "keeping up with the Joneses," the neighbours.

*By Mr. Woodsworth:*

Q. I am speaking of a condition and I would like to get at where the responsibility lies in that regard, not so much reflecting on the past, but looking to the future?—A. I understand that. These periods will come and go in any country in the world. It is wrong to say that the banks are responsible.

Q. But they gave the credit?—A. They were forced to.

Q. And if they had not given the credit, there would not have been inflation?—A. Oh, yes, there would. The credit would have been got somewhere else. You would have had a Federal Reserve Bank here, and it would have given the credit.

Q. Never mind that; you are giving a hypothetical case there. I am keeping it to practical affairs. We had no Federal Reserve Bank, and we had the banks and the credit came through the banks. I am right in that?—A. Yes.

Q. And there was inflation?—A. If you assume that the granting of credit was responsible for the inflation, you are right; but I do not agree with you there.

Q. Will you tell me what was responsible for the inflation?—A. The imaginary shortage of goods, and the knowledge that people wanted to buy, and were willing to pay high prices for them. And the banks had to see that business went on.

Q. If I understand you, then you had a little bit to do with the corresponding process of deflation? You said a moment ago that the banks had to tighten up?—A. No, I did not say that. They had to take losses. I did not say "had to tighten up."

Q. Were they at all responsible for the corresponding process of deflation?—A. Not at all.

Q. The banks then, are helpless in that matter?—A. Absolutely. In that particular instance they were helpless.

Q. You said, in extending credit, or withholding it, that the banks were not thinking of the effect of their action; that is the economic effect of their action?—A. I said that?

Q. Your words were that the banks were not thinking of the effect?—A. Oh, in controlling, yes. What I mean by that is that we are practical people; we meet the situation from day to day; we do not sit down and think how many millions of credit Canada should have.

Q. Do you not think that some one should be thinking about the effect?—A. Well, some people seem to be.

Q. Do you not think some responsible agency should be thinking of the effects and that we should not go it blind?—A. I do not think we do. I do not see what you want, Mr. Woodsworth. Mr. Ross reminds me that I referred to the banks of the United States. I say here:—

"Neither the Federal Reserve System nor any other system can control prices; while credit is one factor in influencing prices, it is neither the only factor nor the controlling one."

That is Mr. Secretary Mellon. That is the best evidence I can give.

*By Mr. Ladner:*

Q. The Federal Reserve Bank certainly can, and so does the Bank of England, control credit, by raising the rate of interest?—A. It does not control prices.

Q. But if you control the credit and the extension of credit, you certainly control the inflation and possibilities of a boom. Is not that one of the methods



and chief functions of the Federal Reserve Bank or of the Bank of England?—A. It can control credit to that extent, but that is not applicable to what Mr. Woodsworth is talking about at all.

Q. If Mr. Woodsworth will pardon my interruption, because this is really the centre and chief reason why I am interested in the Federal Reserve Bank system; I think there is a responsibility on the part of the Government to the public, to control conditions where they can do it on sound grounds. Take the Federal Reserve Bank system in the United States as it exists now: Supposing there is a boom starting in; now, the Federal Reserve Board is controlled by the Government of the United States, and to that extent the government assumes a certain responsibility to the country. If in sound economics, they see a boom coming, and think that credit should be curbed, the Board can curb it, can they not?—A. Oh, yes.

Q. Is not that in the public interest?—A. It might be, yes.

Q. Would it not be in the interest of the business man?—A. It might be.

Q. Or of the banks themselves?—A. It might be.

Q. Can the banks of this country control such a situation?—A. They can and do, I think, effectively.

Q. But you just told Mr. Woodsworth that they did not?—A. But you are taking a post-war condition, and that is not fair.

Q. It would not matter what the conditions were, whether they had the special impetus or a war demand, and excitement, or whether it was just a normal boom, such as we have in mining at the present time?—A. Neither the Federal Bank nor the Bank of England avoided those conditions in the United States or England at that time. They were controlled here to a large extent, and if they were not controlled, they would have gone further.

Q. But there is no such agency here as in the United States, and in England to control the over-extension of credit, we will say?—A. Yes, there is.

Q. What is it?—A. The Finance Act.

Q. No, that only operates when you come to them for money?—A. The Federal Reserve Bank only controls in that way.

Mr. IRVINE: No, the Federal Reserve Bank operates to limit credit.

*By Mr. Ladner:*

Q. So far as the general public is concerned, and let us say, to assist our Canadian banks to control a boom condition, there is something absent in this country which does exist in the Federal Reserve Bank. Would you not agree with me in that?—A. No, I do not agree with you in that. We first have the banks themselves, who can control the rate of credit. Then we have the Finance Act which can control the banks.

Q. But you just told Mr. Woodsworth that the banks themselves did not and could not control such a situation; that the controlling factor rested in the business man himself who was in turn impelled by the idea that the people wanted the goods. Was not that the reason you gave?—A. They could have controlled the amount of credit, Mr. Ladner, but they did not.

Q. Who did not?—A. The banks did not.

Q. Why did they not?—A. There are two uses of the words "could not". One is that they could not properly control the amount of credit; and the other one, that it is impossible for them to do it. It is quite possible for them to do it.

Q. Do the Canadian banks act in unanimity?—A. No.

Q. So as to enable them to control such a situation?—A. No.

Q. How could they do it if they are competitive without collaboration, so as to control?—A. They could do it, one at a time.

[Mr. Albert E. Phipps.]



*By Mr. Woodsworth:*

Q. Just to finish this particular point I should like to read a paragraph that will perhaps bring my idea out. I read from the last speech of Mr. McKenna whom I quoted in the House. This is sent out by Mr. Marvin, of the Royal Bank, in his March letter:—

It must be remembered that, whether we are on a gold or any other standard, the direction in which the price level moves is immediately determined by the volume of money, as modified by its rate of turnover, in relation to the volume of business. If the supplies of money increase beyond the requirements of business, prices tend to rise; if on the other hand, the supplies of money are inadequate, prices fall. The relation between money supplies, and business requirements, viewed in its effect upon the price level, should then be the first care of the central banking authority; and we find on an examination of American statistics for recent years that movements in the price level upwards or downwards have never been allowed to proceed far. We must therefore, conclude that the monetary authorities have met with a high degree of success in the formulation and execution of their policy. This they have done under conditions of great difficulty, brought about by gold movements of unprecedented magnitude.

Now, I should like to ask whether, if that movement is being controlled by the mechanism that has been set up there, and if it was not controlled here in Canada, whether it would not be wise that we should have some agency that could control it?—A. Yes. I say we have it in the Finance Act. You were asking who was responsible for inflation. There was an inflation of Dominion Government notes during the war of fifty million. They had to face the same situation as we did. The money was required, and had to be put out. The British Government, Mr. Ross reminds me, received \$50,000,000 in Dominion notes, for which nothing was given; inflation of the purest kind. Forty million was issued by the Government.

Q. Would you give the proportion that that fifty million bears to the entire amount?—A. There was an extension of 30 per cent by the Government, in Dominion notes that were issued without cover.

Q. Then, on the other hand, what proportion does that bank note issue, that note issue of the Dominion Government, bear to the entire volume of business in the country at that time?—A. The point would be, what relation does that bear to the entire volume of Dominion notes that were previously out.

HON. MR. STEVENS: Be fair in that question. The ratio of expansion is the comparison between the amount of forty or fifty million, and the total issue of Dominion notes.

MR. WOODSWORTH: No, Mr. Stevens, that is not the point I am getting at. The point is that the banks extended credits for manufacturing and industrial purposes of all kinds, which answered the purpose of money, and would in reality mean an extension of the volume of money. It may be true that the Dominion did extend its Dominion notes, but what I was trying to get at is the proportion that existed between the added volume of Dominion notes and the added volume of credit facilities throughout the country.

THE WITNESS: That might be figured out for you some time later, but it is a very difficult problem; you would have to fix dates and so on.

*By the Chairman:*

Q. Would it be a dangerous proceeding to allow the control of credit in any country such as the United States, by a board? Supposing the Treasury Board said, "we are going to put a stop to the lending of money because we

[Mr. Albert E. Phipps.]

believe it is a time for putting on the brakes;" would any Finance Minister take that responsibility so far as this country is concerned?—A. I do not think so.

Hon. Mr. ROBB: Is any one advocating that?

The WITNESS: I do not think the Government of the day would do that, and that is the reason why the directors of the Federal Board are appointed by the President.

*By Mr. Irvine:*

Q. They did take that responsibility. Have you examined the lines of deflation in Canada at the close of the war, from the peak to the bottom, and have you examined them in the United States to see the relation between the two?—A. No, I have not.

Q. If you do, you will find that Canada dropped, like that, to the bottom of the bank, and the United States has not got to the bottom yet, and they maintain the credit of the country to a large degree simply by a stringent control?—A. I think what I have said before is the fact. Neither the Federal Reserve System, nor any Federal system can control prices. There must be a head of it and it is only his opinion.

Q. I think we are foolish to try to get a representative of the associated banks to agree to a change which he regards as not being necessary, and he declares that there is not only no need for any control but that there is no possibility of it. Consequently, we do not look to the Bankers' Association for any evidence in this matter, and you will surely not feel slighted if we look elsewhere to find the control which we believe is necessary, and which we believe must come.

Hon. Mr. ROBB: Well, Mr. Irvine, if I understand Mr. Woodsworth aright, he believes that the banks could have prevented inflation at that period when there was inflation, because of the high price of goods, and the demand for goods. Not only the actual producers, the farmers, but the industrials were running over-time to produce those goods. If Mr. Woodsworth is right in his argument, the banks could have prevented the increase in the wages of labour which occurred at that time. Every one will admit that labour jumped from about two dollars per day to seven dollars per day. Is it the argument here that the banks should keep down the price of labour?

Mr. IRVINE: Oh, that is not the point, sir.

Hon. Mr. ROBB: Is not that a fair inference?

Mr. IRVINE: We are not talking about the price of labour, but about the price of a dollar, and how much a dollar will buy. It does not matter to labour how many dollars in units he gets if it cannot purchase the goods.

Hon. Mr. ROBB: The price of goods is affected by the price of labour.

Mr. IRVINE: What is meant by inflation is, if you have got more money on the market than you have got goods, and through the destructive effect of war, when you had inflated credit to produce the goods, you destroyed the goods, and left your credit floating, you could not help having inflation. I am not blaming the banks for that. There was no machinery at that time to do other than was done. There was no one that thought about anything else, and there is no use of washing that old linen. The point is, can we look forward to any possible change in the future in the relation between the amount of money that is let loose by the credit interests, and the price of the dollar? Is there a possibility of controlling it? That is the point. The Bankers' Association say there is no possibility of controlling anything with regard to prices.

WITNESS: Mr. Irvine, I did not say there was no possibility.

[Mr. Albert E. Phipps.]



*By Mr. Irvine:*

Q. You quoted Mr. Mellon on that?—A. I said there was no possibility of controlling that particular situation that arose out of the war.

Q. Well, we cannot control that now, and if that is what you mean, I agree with you heartily. But, I understood you to mean by that quotation that the problem itself was unsolvable. I think you have said to-day that these periods recur and recur, which is true, but why should we not try to stop them recurring? The point is to try to find out whether there is any way of stopping that recurrence, not by any fantastic way of financing, but by an intelligent way of doing it. We think the Bankers' Association might do it, and if they will help us, that is all we are asking; but if they say it cannot be done, then we will have to find someone who can do it.

*By Mr. Spencer:*

Q. I have a few questions I would like to ask the witness, Mr. Chairman. Mr. Phipps, I understand you are the General Manager of the Imperial Bank of Canada?—A. Yes.

Q. And President of the Bankers' Association?—A. Yes.

Hon. Mr. STEVENS: We cannot hear you Mr. Spencer.

*By Mr. Spencer:*

Q. I take it also, Mr. Phipps, you are an economist?—A. Well, in a certain sense, I am an economist. I am a practical banker, or I try to be. That is all I would say. I have not made a study of economics.

Q. I ask that, because once we had a banker here who said he was "a practical banker, and not an economist?"—A. Well, I would be in that class.

Q. I do not want to overlap what has been asked, but I have a few questions I have put down here, and I would like to ask them in order. You have before you, I believe, a balance sheet of the Treasury Board?—A. Yes, for January.

Q. What date is that?—A. January, 1928.

Q. The 28th of January?—A. No, the 31st of January, 1928.

Q. Will you tell me what amount of savings deposits the banks held at that time?—A. In Canada?

Q. Yes?—A. \$1,466,000,000 in round figures. That is deposits payable after notice.

Q. What is the nature of these deposits?—A. They are various. They are the savings of the people, from capital to labour investment; accumulated funds of various kinds put aside at interest, for special purposes at future times.

Q. What interest is paid on those?—A. Three per cent.

Q. Are these deposits payable in gold?—A. They are payable in legal tender; that is, Dominion notes or gold.

Q. Either Dominion notes or gold. If so, could they be paid if they were demanded?—A. Do you mean, if they were all asked for at the same minute?

Q. Yes?—A. You know the answer to that as well as I do.

Hon. Mr. STEVENS: I think, Mr. Chairman,—if Mr. Spencer will permit me—there is a danger of such a question being wholly misunderstood by the public, and causing a situation that is not warranted. Any one who knows the A, B, C of banking knows that neither this country nor any other could meet all its note obligations if they were asked for at once. We know equally well that it is an utterly absurd position to even think of it, but there are masses of people, tens of thousands, who, if they were told that fact, their confidence in the country's banking system would be undermined at once, needlessly, senselessly, and I think, wantonly.

Mr. SPENCER: If I may be allowed to go on, I think this information is wanted.

[Mr. Albert E. Phipps.]



Hon. Mr. STEVENS: No one wants this information. You have got it there every month.

Mr. SPENCER: Excuse me, I am asking this question.

Hon. Mr. STEVENS: I object to a question like that being allowed to go out, by a responsible Committee of Parliament. It is obviously not in the public interest.

Mr. SPENCER: It is in the interest of the people of Canada that they should be informed on all these subjects of public interest.

Hon. Mr. STEVENS: The question is based on absolutely a false premise.

*By Mr. Spencer:*

Q. Any one knows that this country might not be called on for such a payment, but what percentage could be met in gold or Dominion notes?—A. Do you mean if they were all called for at once?

Q. Yes.—A. I refuse to answer that line of questioning, and that is all there is about it. I do not think it is a square deal.

Hon. Mr. ROBB: Are you basing your question on the supposition that there might be a run on all the banks of Canada at the same time?

Mr. SPENCER: No.

Hon. Mr. ROBB: I object to such a line of questioning.

Mr. SPENCER: If the banking institutions will not stand the light of day, it is time we knew it.

Hon. Mr. STEVENS: That is not a fair way of putting it.

Mr. SPENCER: I have the President of the Bankers' Association saying he refuses to answer a question about the banking system.

Hon. Mr. STEVENS: There is an answer to it, and that is that we could probably pay double the ratio that they can pay in England, and that ought to be safe enough for any one.

*By Mr. Spencer:*

Q. Mr. Chairman, I am submitting questions to the witness. What percentage of gold is carried in proportion to these deposits?—A. The banks are not required to carry gold. They do carry it, as a matter of fact, but they are not required to carry it.

Q. What do they carry instead?—A. Dominion Government notes and other credits.

Q. But you say they are not required to carry any. What amount do they carry?—A. It is on the return for you to see, sir.

Q. Could you give me that?

Hon. Mr. ROBB: But, Mr. Spencer, when these savings are put in the bank, they are used; they are put out in loans for the benefit of the business of the country. Some of them are put out in your own part of the country, and you yourself have asked me to keep banks in your part of the country so that the people in your constituency should be served. Are you saying now that the people should not be served with loans from that source.

Mr. SPENCER: No.

WITNESS: There were 48.8 million in Canada in gold, and 18.7 million held abroad.

*By Mr. Spencer:*

Q. Do the banks loan on interest the deposits payable after notice?—A. We lend the funds of the bank. As soon as the money is paid in to the bank, it is merged. We do not know whether monies are the funds of the bank or savings deposits.

[Mr. Albert E. Phipps.]

Q. You do not keep them separate?—A. No.

*By the Chairman:*

Q. Your monthly report shows what is on deposit?—A. Yes. We do not invest each one separately.

*By Mr. Spencer:*

Q. Do the banks lend monies other than the savings deposits?—A. They lend any of the funds of the bank, they are merged.

Q. How do you create other deposits than savings?—A. Any amounts deposited are put in; every day the Government deposits with us in a sense. We do not call them savings deposits.

Q. How much money had the banks of Canada on the balance sheet you have before you on that date, the 31st of January?—A. I do not think I should be asked that question. Money from deposits do you mean?

Q. On current account and savings?—A. Deposits?

Q. What money available for loans?—A. We had a lot more than that. Do you mean after deducting the loans already made?

Q. Yes?—A. I would have to take some time to figure that out. It would take some time.

Q. Give it to us roughly, in millions?—A. I do not know that I can do that. Whatever they wanted to loan, they would, probably, Mr. Spencer, have at least fifty per cent of their total assets, which are given at about three billions.

Q. Is there a limit to the money they can loan?—A. Yes, as their common sense dictates and good banking practice. I can only speak for our own Bank Mr. Spencer. We would lend on commercial loans about 45 to 50 per cent of our funds and we would think we were getting a comfortable margin of safety.

Q. The same answer would be given me if I asked who regulates it?—A. Yes, good banking practice and the management of the bank.

Q. What relationship is there between the amount of savings deposits and the loans made by the banks?—A. You mean the percentage?

Q. What relationship, what ratio?—A. I would have to take a pencil and figure that out. We would have to take time to do that. There are half a dozen different varieties and loans of every kind.

*By Mr. Woodsworth:*

Q. Is there any immediate relationship between the savings deposits and the amounts loaned?—A. None whatever. What I understand Mr. Spencer is getting at is this: He wants to know how we invest our savings deposits. I say we merge our funds.

*By Mr. Spencer:*

Q. There are those who claim that they only loan money on savings deposits; you do not agree with that?—A. Not at all.

Q. Can a bank change an active liability such as a bank note that is payable to bearer to a liability payable after notice?—A. I do not understand the question.

Q. I will give it to you a little more slowly. Can a bank change an active liability, such as a bank bill that is payable to bearer, to a liability payable after notice?—A. What you are trying to catch me on is this—

Q. I am not trying to catch you on anything?—A. You want to know, if a man comes in with a \$5 Imperial Bank bill, can we change it to a liability after notice?

Q. Yes?—A. Certainly. Anybody can.

Q. What is the percentage of so-called cheque money as compared with bills and coin?—A. I would have to look that up.

[Mr. Albert E. Phipps.]

Q. Sir Edmund Walker said in 1923 that the figure was about 4 per cent of notes and coin?—A. I have heard that figure mentioned.

Q. Do you think that is about right?—A. No. I think there would be a little more cheques now than there were. Cheques are getting a little more general.

Q. Is it a fact that each fresh issue of bills or notes enables a Bank to make further loans drawable by cheque?—A. You mean, if we add to our circulation, it would enable us to make more loans?

Q. Yes?—A. It would.

*By Sir George Perley:*

Q. If they are used?—A. If they are used.

Q. They go to the public, and it is not the mere issuing of them?—A. To elaborate that, under present conditions, in order to issue those notes, we have to give our good friend Mr. Robb dollar for dollar for them.

Hon. Mr. STEVENS: They are not allowed to issue notes recklessly.

Mr. SPENCER: I know the way it is done, Mr. Stevens.

*By Mr. Spencer:*

Q. In getting Dominion notes from the Treasury Board, you can place those in the Central Gold Reserve in lieu of gold?—A. Then we can issue notes.

Q. You can then issue your own notes against them?—A. Yes.

Q. I would like to ask a few questions in regard to savings deposits. What security has a depositor, in a Canadian bank?—A. He has the bank.

Q. I beg your pardon?—A. He has the bank.

Q. How do you mean, he has the bank?—A. The assets of the bank. He is a creditor of the bank.

Q. Is there a guarantee behind the deposit, either a Government or bank guarantee?—A. None whatever.

Q. In the case of a bank failure, are not the calls on the assets of the bank as follows: (1) all notes of the private banks?—A. Notes in circulation.

Q. (2) Dominion deposits?—A. Yes.

Q. (3) Provincial deposits?—A. Yes.

Q. (4) Any mortgages the bank may have?—A. No.

Q. Suppose your buildings were mortgaged to a firm in New York?—A. The mortgage would come ahead of the Dominion Government, I would take it.

Q. Then the savings deposits would come in?—A. All the liabilities, their common liabilities.

Q. In that case, savings deposits would be a fifth mortgage?—A. That is not a fair way of putting it.

Q. Is it a true way of putting it?—A. You may think it is a fair way if you like. I do not think it is fair to put it to the public, that they have a fifth mortgage on the bank. I would not admit that for one minute.

Hon. Mr. STEVENS: Any one can dress facts up, so that there will be a complete distortion of them.

Hon. Mr. ROBB: Mr. Spencer, are you building up a record which will disturb the public, and trying to make the public believe that the banking system in Canada is no good?

Mr. SPENCER: I am just as anxious perhaps more anxious than any other people that we should have a sound banking system in Canada, but in my opinion, as in the opinion of many other people, we might improve it.

The WITNESS: Conditions show that savings deposits in Canadian banks are no different from what they are in any other banks in the world. Why do you pick out the Canadian system, and try to pull it down? It is unpatriotic.

[Mr. Albert E. Phipps.]



The CHAIRMAN: He might eliminate the word "mortgage."

Mr. IRVINE: We have the best banking system in the world, but it is not good enough.

*By Mr. Spencer:*

Q. It was suggested this morning, that we have a system that is the best in the world and could not be improved?—A. That is what I believe. You are not offering any suggestions for improvement; you are suggesting that we have a terrible system.

Mr. SPENCER: Will you admit that there is room for improvement?

Sir GEORGE PERLEY: How would you improve it?

The CHAIRMAN: I do not want to delay these proceedings, but for certain reasons we will have to adjourn at one o'clock. I was just wondering whether we could finish with Mr. Phipps so that he could be excused for to-day.

*By Mr. Ladner:*

Q. Would it not be possible to have some system of insurance, to have savings deposits in the banks protected by guarantee, so that those of the public who desired to make absolutely sure that their capital would be in the bank when they went for it, and who have no special interest in the amount of interest they receive could, under that system of insurance or guarantee, be absolutely protected in respect of that particular class of deposit?—A. That was tried in the United States, and the result was not uncertain. All the banks that had those deposits did not care a darn; they took everything they could get and in three or four years the insurance companies went broke. The people got nothing. That is a matter of history.

Q. I know the banks you refer to and the circumstances you refer to. As a matter of fact, I am a great admirer of the Canadian banking system. I believe it is a wonderful system and that we cannot make many changes, but maybe some. I am suggesting that it is only a question of how sound your insurance is?—A. You can insure your deposits now if you want to.

Hon. Mr. STEVENS: We have the government savings banks now, and we have the country behind them. Let them go to the first post office they can reach and deposit their money.

Mr. LADNER: There might not be any, in some particular part of the country.

Hon. Mr. STEVENS: They are all over the Dominion.

Hon. Mr. ROBB: Who is the witness here?

Mr. LADNER: I am asking a few question if Mr. Stevens will permit me.

*By Mr. Ladner:*

Q. From a banker's point of view, I ask whether it would be advantageous if you had a system of protected accounts, either by insurance or by guaranteed assets to give stability?—A. From a banker's point of view, it is thoroughly impracticable.

*By Mr. Woodsworth:*

Q. I have a letter here from a member of an eastern Board of Trade, down in the Maritime Provinces, in which he says that in places they feel the effect of the lack of credit. I have no doubt communications along the same line could be given from the West. Would you say there was no basis of complaint of that character?—A. Not when they have the securities to put up, Mr. Woodsworth. If you are suggesting that the banks are unduly cautious in risking their funds—

[Mr. Albert E. Phipps.]

Q. On account of the banks being centred or having their headquarters at cities such as Montreal and Toronto, is it easier to secure credit in the central provinces than it is in the East or the West?—A. No legitimate loan properly secured has been refused, from one end of Canada to the other, since I have been a banker.

*By Hon. Mr. Stevens:*

Q. As President of the Bankers' Association, have you any objection to any other body, group of men, syndicate, and so forth, establishing further banks in Canada, under the Bank Act?—A. Not a bit. We would not raise a finger to oppose them.

*By Mr. Woodsworth:*

Q. A business correspondent in Toronto complains that on account of bank directors often being directors of private industrial and commercial concerns, other concerns, rival industrial and commercial concerns, are discriminated against, and he gives his own experience?—A. Well, all he has to do is to walk across the street to another bank. If his business is good, he will be welcome.

Q. You think it does not interfere with business?—A. No. No bank in Canada would dare to discriminate in that way, if they valued an account.

Q. I was sent yesterday, a prospectus, not of a banking scheme, but of an industrial banking arrangement started in the city of Montreal. I believe there are a number in the different cities of the United States. Industrial workers sometimes feel that on account of their low salaries and smaller assets they cannot provide the collateral which is necessary under the present system, but very frequently they have need of credit, to buy a house, or additional furniture for the house, or something of that kind. This plan is to provide in some way for loans running the whole year to be repaid by small instalments. Do you consider there is a range there that is not covered by the banks, but should be so covered?—A. I have had two gentlemen call on me with these proposals and I have advised them both that I thought those schemes would not succeed in Canada for lack of business, because our banking system is a little contrary to that of the United States, where they provide for small loans to small people if worthy. We would do it at a rate of 7 or 8 per cent, and I think the cost of the system was admitted to me by both people to be something over 14.

Q. Not according to the prospectus?—A. Not according to the prospectus. We did figure it out, and you might figure it out when you have time.

The CHAIRMAN: If this is sufficient we will excuse Mr. Phipps. We thank him very much for coming before us to-day.

The Committee adjourned until Wednesday, March 21, 1928.

COMMITTEE ROOM 429,  
HOUSE OF COMMONS,  
WEDNESDAY, March 21, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: I might report to the Committee that we have arranged with the Washington Department of the Federal Reserve Board that Mr. Harding, who is Governor of the Bank at Boston, will be here next Wednesday, and he will probably be our leading and only witness in reference to the Federal Reserve System; so I am hopeful that the members will be present in generous numbers and be ready to ask any questions that pertain to that.

We have with us Mr. Tompkins, who is our bank inspector; and we have Mr. Hyndman from the Finance Department. Mr. Hyndman is assistant Deputy Minister; the Deputy Minister is indisposed. Mr. Tompkins has been sworn, and if there are any questions that have developed since the last hearing, we will be very glad to hear Mr. Tompkins.

Mr. IRVINE: I think Mr. Chairman, it would be a good idea if Mr. Tompkins could give the Committee an idea of his own work as inspector; if he can do that briefly.

C. S. TOMPKINS recalled.

WITNESS: Mr. Chairman, before complying with the suggestion that has just been made, I might place on the record some percentages asked for by the member for Weyburn (Mr. Young), I think it was, at the first meeting of the Committee. I gave figures of Dominion notes and gold, held by the banks on the 31st of December, and was asked what relation the total had to the total deposits with the banks at that time.

The percentage works out at 8.4, but I would suggest that that has no very important significance, and I think it would be well to place on the record also the percentage of cash assets, that is, including bank balances on December 31, 1927, to the total liabilities to the public; that is to say, the total liabilities of the bank, with the exception of its liabilities to the shareholders, was 18.7 per cent; and the percentage of liquid assets, that is to say, the ones I have already referred to, and the call and short loans and the various investments, in government and other bonds was 54.6 per cent of the total liabilities to the public.

*By Mr. Young (Weyburn):*

Q. Are those normal percentages through the year?—A. Yes.

*By Mr. Irvine:*

Q. If I may be permitted to ask what may be a personal question: Have you had banking experience?—A. Yes. About 22 years, between 22 and 23 years.

Q. Have you been manager of any of the banks?—A. I have been manager. I have served in various positions: manager, inspector, and various positions of that nature.

Q. In your work as inspector with the banks, have you access to all the means of information required to assist you in arriving at a true estimate of

[Mr. C. S. Tompkins.]



the bank's position?—A. Yes, the Act gives me very wide powers in that respect; Section 54A, under which my appointment was made. I have never had any difficulty or been denied information on any occasion since I have occupied this position.

Q. Would you feel absolutely sure, after you have examined the bank, and found it in good standing, that no information had been withheld in any way?—A. I do. Taking into consideration that I have access to all their internal inspections; that is to say, the inspections carried out at each branch of the bank by their own officers; and I also have a right to the information obtained from time to time by the shareholders' auditors. I am free to consult them, and they must, under the Act, afford me every facility.

Q. You would say that your position does provide an additional safeguard to the public in so far as banking is concerned?—A. I feel that it does.

*By the Chairman:*

Q. How long have you been with the Government, Mr. Tompkins?—A. Since October, 1924.

Q. Was the creation of your office then?—A. Yes.

*By Mr. Spencer:*

Q. Mr. Chairman, may I ask Mr. Tompkins a question with regard to inspection work. It will be remembered that in 1924, we had considerable discussion in this Committee in regard to the Home Bank failure. Are you aware of that?—A. Yes.

Q. That bank, I believe, was in a rather precarious state for a number of years owing to the reports of a certain auditor. Is that so?—A. I believe that was so. I have had occasion to discuss their affairs with the liquidator of the bank, Mr. Clarkson, and I believe their whole trouble was incompetent auditing, and the fact that an undue proportion of their assets was tied up in large loans of a very doubtful character.

Q. If your position had been created before that time—would it be possible that such a thing could have occurred again?—A. I hardly think so.

Q. You would be in a position to discover that slackness or error?—A. There would have to be such a collaboration, such a combination of deceit practised by so many of the officers of the bank that I could hardly think it possible that it could be carried through successfully—I say it in all modesty—to deceive me in an examination such as I conduct.

Q. Then the Committee was fully justified in arranging for the appointment of a Government Inspector?—A. In my opinion, I would say so, yes.

Q. I do not want to monopolize the time of the Committee, but I would like to ask a few questions with regard to unclaimed balances in banks. By a return given to the House the other day, we were shown that there was a sum of \$2,756,745 in unclaimed balances. How long has that been accumulating?—A. Some of those balances are twenty, thirty, or forty years old; a few.

Q. Is there any interest allowed on these accounts?—A. Oh, yes. Interest accrues on the ones which are interest-bearing accounts. Interest accrues notwithstanding the fact that they have not been claimed.

Q. At three per cent?—A. At three per cent, yes.

Q. Is there no clause in the Bank Act that calls for these amounts after a certain time to be turned over to the Finance Department?—A. No. The only occasion on which they would be turned over to the Finance Department would be in the event of the failure of the Bank. If its assets realized sufficient to provide for all depositors' claims, then at the close of the liquidation such amount as was outstanding would require to be paid over.

[Mr. C. S. Tompkins.]

Q. I understand that the amount is claimed, according to the balance sheet, as a liability of the banks?—A. Quite true.

Q. Have these balances to any extent been claimed from time to time?—A. Oh, yes. Some reported at the end of a certain year might be claimed within the following year. In fact, I may say that care is taken by the banks to have as many claims as possible made, with a view to reducing the number that they are obliged to report; and the mere presentation of the savings bank pass-book, for example, causes a notation to be made in the ledger of the date of its presentation, and it is claimed as from that time onwards, even though no withdrawal or deposit might be made at the time.

Q. I was thinking that such a large amount of unclaimed balances in the banks would also be an asset, as well as a liability if they are allowed to make use of them?—A. The funds are available for their use, the same as other general deposits.

*By Mr. Irvine:*

Q. But, supposing there is really \$2,000,000 never claimed by any one, and three per cent charged to them of interest every year, how many years will it take before all the money in Canada would be chargeable to that particular account?—A. That is a rather difficult question to answer, I am afraid. That would be a matter of some very complicated calculation because, as I said before, deposits are claimed from time to time, and sometimes they may have been reported for three or four, or five years, and suddenly they are claimed.

*By the Chairman:*

Q. This report of the unclaimed deposits is made by the head office. Is any effort then made to give publicity at the point where the deposit was originally made, to show that it was unclaimed?—A. The bank is required by Section 114 of the Act to notify persons whose deposits are unclaimed, by registered post, and very often that brings the desired result.

*By the Chairman:*

Q. There is no newspaper publicity?—A. No.

*By Mr. Matthews:*

Q. Would you repeat that, please?—A. I say, under Section 114 of the Act, the bank is required to notify persons whose deposits are unclaimed; notify them by registered post.

Q. As a matter of fact, the bank wants to get rid of it?—A. Absolutely. I may say there is a very great deal of work involved in the preparation of these returns from year to year. A vast number of these deposits consists of small amounts under \$5 which, as I say, involves a great deal of work in the preparation of these returns.

*By Mr. Spencer:*

Q. Is it possible, Mr. Tompkins, to get in regard to notes in circulation, any report of the amount lost or destroyed?—A. No, that is an unknown quantity.

Q. All notes that are lost or destroyed would be direct gains to either the Dominion Government, or the banks?—A. Oh no, not at all. They remain a liability of the bank forever.

Q. They are a benefit because they are never likely to be a liability?—A. They cannot get any benefit from those that are burned, because they cannot write them off.

[Mr. C. S. Tompkins.]



Q. They carry no interest?—A. No, that is true, but they have to continue to pay their tax on them to the Government; their one per cent tax per annum.

Q. I have a few questions with regard to the Finance Act. Would you be the right witness to ask, or should I ask the Assistant Deputy Minister of Finance?—A. The Assistant Deputy Minister is very well posted on the operation of the Act in the Department. If there is anything particularly relating to the banks' end of it, I might be able to give you an answer.

Q. It is mostly with regard to the changing of the rates of discount?—A. I think that the Assistant Deputy Minister would be the proper person to answer that. That is a matter that comes under the Treasury Board.

*By Mr. Bothwell:*

Q. Would it not be possible periodically to have publication of those unclaimed balances?—A. The publication was discontinued, if I recall correctly, in 1916, for reasons of economy, solely. I do not believe, in view of the provisions of the Act now requiring notice to be given to depositors, that it would be necessary or advisable to publish the entire list. It might perhaps be thought well to issue in blue book form details of the amounts over a certain sum.

Mr. IRVINE: I suggest now that you bring in the Treasury Board.

The CHAIRMAN: Very well, we will excuse you, Mr. Tompkins.

*By Mr. Ward:*

Q. Mr. Chairman, before Mr. Tompkins leaves, I might ask a few questions. You are the banking inspector, Mr. Tompkins?—A. Yes, sir.

Q. You, of course, know something of how that inspection is carried out? How many of a staff have you?—A. I have no staff. So far as the actual examination at the head office of the banks is concerned, I manage to carry that out myself.

Q. You have no assistants, whatever?—A. The banking returns, and the work that was formerly carried on by certain officials of the Department of Finance, continue to be carried on in that same way. Although of course, I have information in regard to all those matters, the actual examinations I carry on myself. I might say that in view of the confidential nature of that work, I have not so far felt it advisable or necessary to engage any assistants.

Q. What percentage of the bank branches do you visit?—A. I do not visit any branches. I have the right to do that, but I have not thought it advisable yet.

Q. But you do examine the head offices?—A. I examine head offices. I can generally get all the information I need from the head offices.

Q. The head offices only?—A. The head offices only.

Q. In your judgment it is not necessary to examine the bank branches?—A. I do not think so. If that were necessary, it would involve a great duplication of work which is already being done, in my opinion, satisfactorily by the bank's own inspectors, whose reports, as I said before, I have access to.

Q. How often do these examinations take place?—A. These branch examinations?

Q. Yes?—A. At least once a year, sometimes more frequently, sometimes twice a year, but at least once.

Q. Just how far does your inspection go?—A. My inspection consists very largely of an examination of all of the large loans of the different banks, that is to say, loans that I consider large in proportion to their total resources, or to their capital and reserve. That involves I might say, about ninety per cent of the work. I also make myself familiar with the details of their investments, call

[Mr. C. S. Tompkins.]



and short loans, and with the details of the head office accounts, including their so-called undisclosed reserves, and all other information which is usually found in the head offices.

Q. That is, you examine the securities held as against those loans?—A. I have a list of the securities. I may say that the securities themselves are physically examined by the shareholders' auditors once or twice a year, and in view of the calibre of the men who do that work now, I would not consider it necessary to duplicate that work.

Q. Was it not so that that was largely the cause of the failure of the Home Bank?—A. No, the main trouble was in respect to their loans classed as commercial loans. There were several large loans, and doubtful or bad loans which were classed in that category.

Q. It was not the weakness of the securities?—A. It was not the weakness of the securities in the sense of securities owned by the bank. Securities are reported in three classes, Dominion and provincial, municipal and railway and other bonds, etc.

Q. Is it not so that nearly all the difficulties our banks have got into in times past, were due to the weakness of the securities?—A. Due to the weakness of the collateral securities or to the weakness of the obligant's financial position.

Q. You have told us you did not examine personally the securities?—A. Quite true.

Q. Do you think we are getting all that we have hoped to get, under the bank inspection?—A. I believe you are, because, as I said before, these are matters for inspection by the shareholders' auditors, who are present in all the banks and are men of very high calibre.

Q. Are they not employed by the banks themselves?—A. No, they are employed by the shareholders themselves and are independent of the banks. As I previously remarked, it has been amply proven that the auditor in the case of the bank mentioned was not competent to value the securities and to perform the work of an auditor generally.

Q. But you think that there was no ulterior motive?—A. No. I think it was a pure case of incompetency, as far as he was concerned. I have no doubt his intentions were of the best.

*By Mr. Bothwell:*

Q. In a case like that, what power have you?—A. I have power to go to a branch and examine any of the bank's documents. I could go as far as I liked, that is, under section 54A of the Act.

Q. You say you find no reason to doubt the competency of the shareholders' auditors?—A. That is a matter of judgment. I have met these men, and I may say they include men of such outstanding firms as Peat, Marwick, Mitchell and Company; Price, Waterhouse and Company; Riddell, Stead, Graham and Hutchison, and men of that type.

*By Mr. Irvine:*

Q. It would be impracticable for you, or any other inspector, to examine all the collateral of the banking system in Canada?—A. Simultaneously, yes.

The CHAIRMAN: You gave us the names of two or three firms. The inference might be drawn that other firms were not of equal calibre. On the ground of publicity, would you have any objection to leaving out the names of the firms you mentioned?—A. I certainly would not wish to cast any reflection on firms of equally high standing with those I have mentioned.

Mr. SPENCER: I think he is throwing bouquets at them.

WITNESS: I have no desire to advertise these firms in preference to others.

[Mr. C. S. Tompkins.]

The CHAIRMAN: I see these names being used frequently, Price, Waterhouse and Company, and Clarkson, Gordon and Dilworth.

WITNESS: The latter firm does not perform any bank auditing at the present time.

*By Mr. Bird:*

Q. Have you power to object to any auditor?—A. The minister has the power under the Act, to object to the name of any auditor.

Q. Have you any responsibility?—A. I am consulted in that respect by the department.

*By Mr. Spencer:*

Q. Did he not have the same power at the time of the Home Bank difficulty?—A. I believe he did, the same existed.

*By Mr. Ward:*

Q. Do you think the present auditors employed are competent?—A. I do.

Q. What percentage of loans are made from the head offices?—A. You mean from the head offices proper?

Q. Yes.—A. That is to say, not the chief branch in the city where the head office is located?

Q. No.—A. A very small proportion.

*By Mr. Matthews:*

Q. None are there?—A. Practically none in some banks, and if there are, they are of a very temporary nature.

*By Mr. Ward:*

Q. From what offices are the chief loans made?—A. The large centres, such as Winnipeg, Calgary, Vancouver, Montreal, Toronto. Obviously the larger places have the larger volume of business.

Q. But you have no idea as to the percentage?—A. No. I have never thought it worth while to work that out, at any given dates.

*By Mr. Matthews:*

Q. I think you might add that their loans made at these branches are reviewed and approved at the head office?—A. They are, and they are approved prior to the head office's approval by the district superintendents of the bank.

*By the Chairman:*

Q. There is a general feeling, Mr. Tompkins, that the question of exchange on cheques, large and small, is annoying, in a measure; that is, the cashing of a cheque in a community, with a small exchange charge. Is that a question for regulation by the banks themselves; you would have nothing to do with the charging of the exchange rate?—A. No, that is a matter of competition. I may say that these charges generally are not as large as they used to be, when transportation was not as good as it is at the present time.

*By Mr. Ward:*

Q. In a bank, just a few days ago, I presented a cheque to have it cashed, and the teller requested a certain amount of exchange. I refused to pay it. I said, "You are overcharging me, you are charging me twice as much as it should be," and he promptly accepted just one-half the amount. Is that a common thing in the banks?—A. No, I cannot say that it is. He should have been reported? I think a matter like that should have been reported to the manager and an explanation asked for.

Mr. CASSELMAN: What rate were you charged?

[Mr. C. S. Tompkins.]

*By Mr. Ward:*

Q. There is no harm in putting it on the record. The cheque was for \$300 and some odd, and the teller wanted to charge me 60 cents. It was about \$360, if I remember correctly. I told him that I thought 30 cents was about the regular rate, and he accepted the 30 cents.

Mr. CASSELMAN: I think you got it at less than the regular rate.

The CHAIRMAN: The point I have in mind is that it would be much more agreeable and acceptable if the banks in Canada carried no exchange, just as they do in the United States. I suppose that that can be explained by the fact that funds are required in big centres of the United States and unquestionably they do cash cheques without exchange much more generously and perhaps with much more regularity than we do in Canada. You can cash a cheque in New York at any place without any charge. I suppose that that is because of the New York funds.

Mr. IRVINE: I do not see why there should be any exchange as between the branches of the various banks.

Mr. SPENCER: Take the practice of the British banks; for many years they never charged anything on cheques drawn on any branch of a particular bank. I do not know what it is like in the east, but in the west you might have three branches of the same bank in three little towns close together, and they will charge a discount on every cheque drawn on those branches of the same bank. I do not suppose Mr. Tompkins is responsible for that.

The CHAIRMAN: No. That is a matter of bank competition.

Mr. IRVINE: That is just the practice of the best banking system in the world.

The CHAIRMAN: Is there anything more from Mr. Tompkins?

*By Mr. Ward:*

Q. I have one more question. You said you accepted the reports of the local bank branches; are you satisfied with the reports of the local managers?—A. These are not reports of the local managers; they are reports of the bank's own inspectors.

Q. Perhaps I did not put my question just clearly, but this is my point; are you satisfied with the reports of the audit that is made of the local branches?—A. I made it my particular business in the first year of my occupancy of this office to familiarize myself with each bank's inspection system, and I felt satisfied with the general system that they followed.

*By Mr. Ernst:*

Q. I doubt if there is any banking system in the world that has a more efficient system of inspection than that followed in the Canadian banks?—A. Quite so; it is conducted on a very high standard.

*By Mr. Spencer:*

Q. It was not so with all of them, until 1924?—A. With one exception.

The CHAIRMAN: If there is nothing further, we will excuse Mr. Tompkins now. He is our official, and is available at any time we want him.

Witness retired.

GEORGE W. HYNDMAN, called and sworn.

*By the Chairman:*

Q. I suppose we are unfamiliar with your department, Mr. Hyndman. If you will just give us a little idea as to what line of activity you follow the members of the Committee will ask you questions from time to time?—A. I have

[Mr. G. W. Hyndman.]



no particular statement to make, sir. I was under the impression that we would be asked questions.

*By Mr. Irvine:*

Q. What is your position?—A. Assistant Deputy Minister of Finance.

*By the Chairman:*

Q. The Deputy Minister, Mr. Saunders, is indisposed?—A. Yes.

*By Mr. Irvine:*

Q. How many years have you occupied the position which you now have?—A. For the last four years; previous to that I was comptroller of currency for some years.

Q. Have you made any special study of economics in connection with finance or are you purely an expert in the Department of Finance itself?—A. I am not an economist.

Q. Do you understand the working of a Federal Reserve System such as they have in the United States?—A. I have a general idea of it.

Q. Do you consider that the Treasury Board exercises exactly the same functions in Canada as the Federal Reserve System does in the United States at the present time?—A. Yes, as far as it is necessary.

Q. What do mean by, as far as it is necessary?—A. Well, the operations of the Finance Act which came into existence in 1914, which operates under the direction of the Treasury Board, have demonstrated that they are well able to take care of the requirements of the banks, the seasonal borrowings, and things of that nature.

Q. They can take care of the banks but do you consider that they take care of the functions that are taken care of under the Federal Reserve System?—A. The Federal Reserve System in the United States is a bank of rediscount. We are practically the same thing.

Q. Do you think that is the only function of the Federal Reserve System in the United States?—A. No.

Q. What other functions does it attempt to perform?—A. It has other functions, mainly re-discounting, the issue of currency.

Q. What others, would you say?—A. I do not know that I am prepared to go into the details. I have studied it in a general way.

Q. You would say that the Treasury Board in Canada performs, or at least may perform, has the power to perform under the Finance Act, and probably does perform the discounting functions of the Federal Reserve system, but no other?—A. Yes.

Q. You would not perform any other?—A. No, not under the Finance Act.

Q. In that case, if there are other functions performed by the Federal Reserve System which might be considered of value, we might be well advised if we proceeded with the organization of such a system, since you do not now perform them?—A. I did not get the last part.

Mr. ERNST: The question is double-barrelled.

Mr. IRVINE: I did not intend it to be double-barrelled. Maybe it is a blank.

*By Mr. Irvine:*

Q. The point, Mr. Hyndman, is that you affirm that the Treasury Board performs the discounting functions of a Reserve System?—A. Yes.

Q. But no other. Then if there are other functions in a Reserve System which might be considered of service to the nation, for any reason whatsoever, we might be well advised to proceed with the organization of such a system, since you do not perform those functions?—A. I do not know that it has ever been represented that there are any functions we might perform that we do not.

[Mr. G. W. Hyndman.]

Q. Is it not so, that the Federal Reserve System in the United States, has made a very successful attempt in controlling the price of money?—A. I am afraid I am not competent to answer that question.

Q. I can assure you that they have. I do not know whether you have made any attempt to do that through the operations of the Finance Act, have you?—A. Well, the Finance Act is not used in Canada to the extent that the Federal Reserve System is used in the United States.

Q. Have you raised or lowered the discount rates within the last year?—A. Yes.

Q. For what reason?—A. The rates were lowered, or were changed in November, 1927. The rates were lowered.

Q. And later?—A. No, they have not been changed since then.

Q. When was that?—A. November, 1927.

Q. From what? Five and one half to four?—A. They are three and three quarters now.

Q. Why were those rates lowered at that time; have you any idea?—A. Yes. The New York call-rates, the Federal Reserve rate in October, November, and December of last year were lower. The New York Federal Reserve Rate was three and one half. About the 1st of February it was raised to 4 per cent; the call rate in New York in October and November, varied from 3.60 to 3.85.

Q. Therefore we know that the discount rate was altered in Canada because it was altered in New York?—A. If we kept our rate up we might force our banks to borrow in New York, and we prefer to have them borrow under the Finance Act in Canada.

Q. That does not seem to me to be a sufficient reason for lowering your rates. It may be a practical one from a banking point of view, but it may be a very dangerous one to follow from the point of view of the nation?—A. I do not think so. It is a matter of opinion.

Q. I think it would be a matter of fact. However, I do not wish to take up any time with it.

*By the Chairman:*

Q. Mr. Hyndman, you spoke about seasonal borrowing. Is the privilege of borrowing from the bank for circulation not operated all the year round?—A. Yes, but it is roughly in crop-moving time.

Q. I suppose your price for money is fixed upon the price of money throughout the world, or from your neighbour, or whatever they might borrow?—A. It has an affect on it.

Mr. IRVINE: It has never had that effect in the West, Mr. Chairman.

*By the Chairman:*

Q. You have no way of showing in your returns brokers' loans in Canada; you have no separation except in the designated forms in the bank returns?—A. That is a question for Mr. Tompkins, not for me.

*By Mr. Ward:*

Q. When discount rates dropped, say, from 5 per cent to 3½ per cent, why was there not a corresponding reduction in the price of money to the public?—A. Well, I am not altogether able to answer that question, not being in touch with the banks. It is purely from a departmental point of view that these rates are changed from time to time. They have been changed three times I think since the Finance Act came into existence, under the direction of the Treasury Board.

Q. Do you not think the banks should have reduced their rate?—A. It is a matter of supply and demand with the banks.

Q. Your opinion is that it is a matter of supply and demand that controls the rate of exchange or rediscounting?—A. Not altogether.

[Mr. G. W. Hyndman.]

*By Mr. Spencer:*

Q. I have a few questions I would like to ask with regard to the Finance Act. Would you give me roughly the securities the banks can bring to the Treasury Board?—A. I may say that the Finance Act was pretty well described in the evidence given before the Committee in 1923 and 1924; it is all in the records and they are pretty well described, as to the advances that may be made, in the Finance Act. I will read them, if you like.

Q. I have a pretty good idea of them, but I wanted to see if your evidence coincided with other evidence that has been given to us. You would prefer to read them from the Finance Act?—A. Absolutely.

Q. Is there any guarantee in regard to loans made to the banks through securities lodged under the Finance Act that the money will not be used for speculative purposes?—A. No. The Finance Act states that the banks may pledge these securities and borrow Dominion notes against them.

Q. In what denominations are those notes?—A. Mostly in the \$50,000 denominations.

Q. But they can come down to \$1?—A. Yes. They can bring their \$50,000 notes back and make them exchangeable at any time at our offices.

Q. There are ones, twos, and a few fours?—A. The fours were recalled ten or fifteen years ago.

Q. They are still in circulation?—A. Very few of them.

Q. They are in the larger denominations. How is the Treasury Board constituted?—A. The Treasury Board is constituted of so many members of the Cabinet—six.

Q. Can you give me a list of the present members?—A. The present members?

Q. Yes?—A. The Minister of Finance is the Chairman; then there is Mr. Dunning, Mr. Stewart, Mr. Euler, Dr. King, and Mr. Lapointe. Those are the present members.

Q. Why did the Treasury Board reduce the rate of discount on the 1st of February, 1924, from 5 per cent to  $4\frac{1}{4}$  per cent?—A. Well, money rates were down in New York. The Federal Reserve rate was down.

Q. Would you give the same answer to the following question: why did they reduce the rate on the 1st of November, 1927, to 4 per cent and on the 1st of December to  $3\frac{3}{4}$  per cent?—A. I beg your pardon?

Q. Would you give the same answer to that question? I notice the rate was reduced on the 1st of November, 1927, to 4 per cent and again on the 1st of December of the same year to  $3\frac{3}{4}$  per cent?—A. Quite. The rates vary in New York from day to day. Our rates do not vary as much here.

Q. Was not speculation fairly rife in the latter part of 1927, in stocks particularly?—A. That is not a question I can answer very clearly. It does not come under the supervision of our department.

Q. The general opinion is that it was, that speculation was fairly rife. If the Treasury Board was making any effort at all to regulate the price level, would it not be in the best interests of the country to lower the rate when business was slow and increase it when speculation was rife?—A. Well, the Finance Act has been used very, very little by the banks, in the last few years, and any change in the rate made by the Treasury Board, I do not think would have had any effect on the speculators. Since 1921 I have the greatest amounts outstanding here in any one year. The largest amount we have had out was in 1922, namely, \$61,000,000. That was the largest amount we had outstanding in any one year from 1921 down to the present time.

*By Mr. Matthews:*

Q. Commercial expansion would have more to do with it?—A. Absolutely.

[Mr. G. W. Hyndman.]



*By Mr. Spencer:*

Q. It seems to me that when the Treasury Board of the Dominion is discounting securities for the banks as low as  $3\frac{3}{4}$ , in all fairness the banks should lower their rates to the public?—A. I cannot answer that.

Mr. MATTHEWS: It might be that the banks are not borrowing the money, and are not using it at all.

*By Mr. Spencer:*

Q. How much is out at the present time?—A. The highest amount outstanding, in February, was \$28,000,000. I think it is a little under that now. I have the exact figures here somewhere. Up to date (yesterday) \$14,000,000 was outstanding under the Finance Act.

Q. Is it correct that on the 1st of December, 1927, the Government borrowed from the banks on Treasury bills the amount of \$45,000,000?—A. Yes.

Q. At what per cent?—A. Four per cent.

Q. Can the banks bring those same securities back to the Treasury Board and get them discounted?—A. Yes.

Q. At  $3\frac{3}{4}$  per cent?—A. At  $3\frac{3}{4}$  per cent.

Q. Do you think that is good business on the part of the Government?—A. I think so.

Q. And lose a quarter of 1 per cent?—A. I would not say that.

Q. If they borrow from the banks at 4 and lend back on the same security at less?—A. That is entirely a different proposition. We borrow from the banks maybe on Treasury bills or on three-year notes; the banks are not borrowing under the Finance Act, against those bills, to any extent, if they are at all.

Q. They can, though?—A. They can, but they are not doing it. They may come in and borrow money for a week or two weeks or three weeks. I do not think it would be fair to the banks or any other organization to ask them to pay more. It is a different proposition, borrowing for two or three weeks, or even six months, to finance as against three years or longer.

Q. But they have the right under the Finance Act to bring those securities back and get them rediscounted?—A. Yes, but we can always change the rate. If there are large borrowings under the Finance Act, and we do not want them, the rate can be changed over night; it can be changed at any time by the Treasury Board.

*By Mr. Matthews:*

Q. The term "discounting" has been used. Mr. Spencer has been asking you if the banks could take the securities back for discount. They do not discount them, they borrow upon them?—A. They put them up as collateral. That is a different thing from discounting.

Mr. SPENCER: What other name would you give it, Mr. Mathhews?

Mr. MATTHEWS: I do not think they are the same. I may be wrong.

WITNESS: The notes themselves, or bonds, or whatever they put up, are put up as collateral against the loan.

*By Mr. Vallance:* When you discount a note, you sell the note, and when you borrow on a note, you give collateral?—A. Give collateral.

Mr. SPENCER: They can bring back exactly the same securities. It comes to exactly the same thing. The Government borrows from the private banks on treasury bills at 4 per cent; they are enabled under the Finance Act to bring those bills back to the Treasury Board and get money at  $3\frac{3}{4}$ . I think that is correct

[Mr. G. W. Hyndman.]

Mr. MATTHEWS: Temporary money.

Mr. SPENCER: I say they can get it. I do not say "temporary".

*By Mr. McLean (Melfort):*

Q. Can they get money without limitation, or money for a very short period, a very temporary period?—A. Under the Finance Act, advances of Dominion notes may be made for a period not exceeding one year.

Q. To the bank?—A. To the bank. Those advances, or whatever you like to call them, may be renewed from time to time by the Treasury Board. They all expire automatically on the 1st of May, and the banks send in their new applications for credits.

*By Mr. Spencer:*

Q. I would like to ask you a few more questions with regard to notes. I do not know whether this comes under your Department or Mr. Tompkins' Department?—A. Dominion notes come under the Dominion Notes Act.

Q. What is the difference between a Dominion bond, and a Dominion bill?—A. A Dominion note, with certain exceptions—I mean the Statute authorizes certain free issues of notes, a bond is the same as any other bond issued by a corporation or a Provincial government.

Q. Are they not both based on the assets of the Dominion of Canada, and both guaranteed?—A. It is an obligation of the Government. You can call it a guarantee or not.

Q. The Government keeps its obligations?—A. Yes.

Q. The main difference, of course is, that one bears interest and the other does not?—A. One bears interest and the other does not.

Q. Would it not be in the interest of the country if more of these non-interest bearing vouchers were issued?—A. Notes?

Q. Yes?—A. No, decidedly no.

Q. For what reason?—A. Our Dominion notes are backed by gold to the extent of something slightly over 50 per cent. The Federal Reserve notes are backed by not less than 40 per cent gold. The Bank of England and Treasury notes are slightly below that, but their endeavour is to get it up to at least 40 per cent. They have not got there yet, since the war. I do not think it would be advisable, in a country like Canada, wide-spread, to have any less gold reserves than we have.

Q. Are not all Dominion bonds payable in gold also?—A. Some of them are, some are not. The reason some of them are payable in gold was that during the war period a great many of our bonds were sold over the border, in the United States. That is the reason payment in gold was put in our Dominion of Canada bonds.

Q. Do you find any more ready sale for a bond payable in gold than for one that is not?—A. In all our issues, from the commencement of the war, in Canada, I do not think it had any effect one way or the other.

Q. What returns do the banks give to the Dominion Government for the privilege of issuing notes (a) in taxes. (b) in interest, or in any other way?—A. Do you want it for a period of one year?

Q. I do not mean in the aggregate. Is there not a one per cent tax?—A. There is interest on excess circulation, September to February, 5 per cent. There is interest on the advances under the Finance Act, and there is the War Tax Revenue.

Q. That is 1 per cent?—A. That is 1 per cent.

Q. Then there is of course the  $3\frac{1}{4}$  per cent now charged?—A. Yes, I included that under the Finance Act.

[Mr. G. W. Hyndman.]

Q. Perhaps you would be good enough to give me some information with regard to gold. I notice according to Hunstoon's estimate that the production in Canada in 1927 was between \$44,000,000 and \$47,000,000 in gold.—A. I think that may be a little high, according to the estimates I have seen.

Q. Does the Government buy all the gold offered to it?—A. Generally speaking, no. Sometimes we buy it, sometimes we do not buy it.

Q. What is the law governing that?—A. It is a matter of whether we want the gold or not. That might determine it. At the present time we are buying all the gold that is offered—more as a convenience to the mines.

Q. It is not compulsory?—A. It is not compulsory. They have the right to take any gold to the mint and have it coined into British sovereigns.

Q. At what cost?—A. There is a certain cost. I think I have it here. It is the regular Mint charge. I have it here somewhere. I will get it for you.

Q. You say they are buying all they can get. What is given in return?—A. We pay cash for it.

Q. Dominion notes?—A. No, out of our cash.

Q. They could ask for Dominion notes if they wanted to?—A. They would not want the Dominion notes; they want credit in their bank.

Q. Anyway, it is cash, and they can draw on it?—A. Yes.

*By Mr. Bird:*

Q. When you sell that gold for commercial purposes, what is the margin of profit?—A. There is a reasonable margin of profit. I have not got the figures here. It is a matter for the mint. Our mint is a branch of the Royal Mint. In that way, if they sell gold, they can only do it with the permission of the Minister of Finance. We allow them to supply the trade with small gold bars, at a small profit to the Mint.

*By Mr. Irvine:*

Q. Are you allowed to purchase all the gold in Canada?—A. Not at all.

*By Mr. McLean (Melfort):*

Q. In the case of a mine smelter producing gold, is it free to sell outside the country?—A. Yes. Some of our Ontario mines do ship to the United States—a few of them—but most of them are delivering it at the present time to the Dominion Government.

*By Mr. Irvine:*

Q. What determines whether you buy it or not?—A. We have been requested by the mines for some years back to take the gold whenever it is offered. We also take over the silver, and use it in our coinage.

Q. You would not buy gold simply because the mines asked you to?—A. No.

Q. What happens when you buy half a million dollars worth of gold?—A. It shows in our gold returns. If we buy more than we require it shows as excess gold. We might ship that gold to New York.

Q. When did you ship the last gold to New York?—A. I could not tell you off-hand, but possibly three months ago.

Q. I would like to know how much you shipped, if you can find that out, why you shipped it, and how often it has been done in the last twenty years?—

A. We have that information in the Department.

*By Mr. Spencer:*

Q. Could you get that information and submit that at another meeting?—A. Yes. (See page 114).

The CHAIRMAN: Let us get the question clearly, and it can go into the record. Would that be agreeable? What is it you want?

[Mr. G. W. Hyndman.]



*By Mr. Sanderson:*

Q. While we are on the gold question, how much are the banks supposed to keep on hand?—A. There is no set percentage; just what they consider necessary for their own business.

The CHAIRMAN: How far back, Mr. Irvine, do you want that?

*By Mr. Sanderson:*

Q. You say that there is no provision for them to keep any certain amount of gold on hand?—A. No.

Q. Are they not supposed to pay out gold if a customer demands it?—A. No. A bank note is not redeemable in gold; it is redeemable in legal tender. That means Dominion notes or gold. Dominion notes are exchangeable for gold at any of our offices.

Q. Is there no law appertaining to the amount they are supposed to keep; has there been any change in the law within the last ten years?—A. Not that I know of.

*By Mr. Irvine:*

Q. It was heralded in the press some time ago, that Canada had gone back to a gold basis. What do you mean by that?—A. I thought everybody knew that at the commencement of the war, payment of gold was stopped. We came back to it on the 1st of July, 1926, that is, the Act ran out and we did not renew it.

Q. It made no difference?—A. It made no difference.

Q. There is nothing now except the fetish, which some foolishly accept.

The CHAIRMAN: To clear up that question about what we want; we want the dates and the amounts of shipments of gold from Canada during the past number of years.

Mr. IRVINE: Say ten years.

Mr. SPENCER: Shipments from the States to Canada?

Mr. IRVINE: I am not interested in their shipments of gold to Canada; we do not want their gold.

The CHAIRMAN: For the last ten years, the amounts and dates of shipments of gold to the United States, shipments out of Canada.

Mr. IRVINE: I would like that checked up with the trade balances at the moment it was shipped. I want to know why it was shipped.

WITNESS: Do you mean the gold shipped by the Government? The banks ship far more than the Government.

*By Mr. Irvine:*

Q. The only sure way is, to get both?—A. Of course these figures are all shown in the customs returns.

*By the Chairman:*

Q. You will file your record so far as the Department is concerned?—A. I will. (See exhibits Nos. 2 and 3—pages 114 and 117.)

*By Mr. Ward:*

Q. Before we leave that question, my understanding of the gold reserve is that the gold carried has a direct relationship to the note issue of the banks; is that not so?—A. Not in regard to the banks.

Mr. McLEAN (Melfort): Mr. Chairman, perhaps the term, "gold securities" is used by the banks. Government securities are redeemable at their face value in gold. Does that come into question?

WITNESS: I do not think so.

[Mr. G. W. Hyndman.]

*By Mr. McLean (Melfort):*

Q. There must be some security behind them?—A. Do you mean bank notes, or Dominion notes.

Mr. TOMPKINS: I may say that bank notes are issued against the general assets of the bank, and besides that they have the security of the double liability of shareholders.

Mr. IRVINE: Are not the general assets of the bank regarded as gold by the Treasury Board?

Mr. TOMPKINS: I do not understand what you mean. A bank deposits securities of various kinds.

Mr. IRVINE: It becomes gold when deposited.

Mr. TOMPKINS: I do not see by what possible miracle you can do that.

Mr. IRVINE: It is easy for the best banking system in the world.

Mr. TOMPKINS: Bank notes as I said are against the general assets of the bank. They are not required by statute to carry any set amount of gold, or percentage of gold, or even Dominion notes, against their note circulation, nor have they ever been required to do that.

Mr. BIRD: It is only the issue beyond that.

Mr. TOMPKINS: Excess circulation must be covered dollar for dollar by Dominion notes or gold in the Central Gold Reserves.

*By Mr. Bird:*

Q. You said that in a new country like ours, widespread, it is necessary at least, to have 50 per cent of gold behind a Dominion note issue. You did not say why, Mr. Hyndman?—A. 50 per cent is about the same margin, or slightly more than the Federal Reserve Banks require to hold. They hold forty.

Q. Has there been anything to indicate that that is the required amount; would not 25 per cent or even 10 per cent be desirable? Has there been anything to show that 50 per cent is the required amount of gold behind them now?

—A. It is within reach of the rate set by other countries, that is, the United States and Great Britain.

Q. You seemed to discriminate, when you said a country like ours, widespread, required so much, and I just wanted to know why you said that?—A. We are a largely extended country.

Q. You do not believe that gold is purely a psychological thing, that it is there for psychological purposes?—A. Under our statute, we have to keep gold in all provinces, in order to redeem Dominion notes if presented.

Q. But it is just a psychological reason?—A. At times.

*By Mr. Irvine:*

Q. You did not do that during the war?—A. No. Our notes were not redeemable in gold during the war.

Q. It would be just as good if they were not redeemable now?—A. I cannot agree with that.

Q. Why can you not agree with that? Who wants gold, what do you want with the gold except to fill teeth. It is of no other value.—A. It is very useful for exchange purposes sometimes.

*By Mr. Spencer:*

Q. There is no demand for gold by way of exchange?—A. Very very small, practically none.

*By Mr. Irvine:*

Q. I am not clear about what this 50 per cent of gold was; 50 per cent of Dominion notes in circulation, or bank notes in circulation?—A. Just Dominion notes. We have nothing to do with the banks' notes.

[Mr. G. W. Hyndman.]

*By Mr. McLean (Melfort):*

Q. Is it segregated and held for any other purpose?—A. No other purpose. We also hold 10 per cent in addition against savings bank deposits, that is, Government and post office savings bank deposits.

Q. You do not use it for any other purposes?—A. Absolutely no. We could not.

Q. Against bonds and securities of various kinds sold by the Dominion, there is the general credit of the Dominion?—A. The general credit of the Dominion.

*By Mr. Spencer:*

Q. You know Mr. Hydnman, of course, or I take it for granted that you know, that in every big crisis in history the gold basis has been dropped; we did that in 1914?—A. Yes.

*By Mr. McLean (Melfort):*

Q. Did the United States take the same action during the war?—A. Yes, Mr. McLean.

Q. Just as a precautionary measure?—A. As a precautionary measure. In a sense, we were never really off the gold basis during the war.

Witness retired.

The Committee adjourned until Tuesday, March 27, 1928.



COMMITTEE ROOM 277,

HOUSE OF COMMONS,

WEDNESDAY, March 28, 1928.

The Select Standing Committee on Banking and Commerce met at 10.30 a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: Gentlemen: We have with us this morning Mr. Harding, of Boston, who was for eight years a member and Governor of the Federal Reserve Board in Washington. Mr. Harding is now Governor of the Federal Reserve Bank of Boston. He comes to us willingly and generously, and I know we will all be very well repaid with the information he will be able to give us. We have thought, a goodly number of times, about the great value and great importance of our Canadian banking system, and while we may be disillusioned to some extent after hearing Mr. Harding, still I am hopeful that he will give us—and I know he will—many kindly words, because he comes from a friendly and a kindly neighbour and nation. Without further words, except to express to Mr. Harding our deep appreciation for his kindness in coming to us, I would ask that Mr. Robb, our Minister of Finance, say a word.

Hon. Mr. ROBB: Mr. Chairman and gentlemen, on behalf of the Government and the members of the House of Commons, I join the chairman of the Banking and Commerce Committee in extending to Mr. Harding a very hearty and cordial welcome to Canada. We Canadians appreciate the compliment that Governor Harding has paid to us—he has a very busy life and great responsibilities—in coming voluntarily to meet with our Committee and advise us upon questions more particularly affecting the banking system of this country. May I say to Mr. Harding that we Canadians are not at all sensitive people; we want him to tell us frankly and openly wherever he in his judgment feels that there is a weakness in our banking system, so that when we come to the next revision of the Bank Act, in a few years, we will have the advantage of his advice. I join with you, Mr. Chairman, in extending a welcome to Mr. Harding.

W. P. G. HARDING (Governor, Federal Reserve Bank, Boston) was called.

The CHAIRMAN: Mr. Harding, if you have no objection, we will be very pleased if you will just be seated, and address us. I will ask that if the members have any questions, they will jot them down, and I know Mr. Harding will be very pleased to answer them, after he has talked to us.

Mr. HARDING: Mr. Chairman and Mr. Minister: It is a great pleasure to me to be in Ottawa this morning, I have long had a very high admiration for the Dominion of Canada, and for the progress you have made in the face of a good many obstacles. My attention was called particularly to the heroism of the people of the Dominion during the Great War. The United States was in the war about eighteen months, and I recall very vividly the sacrifices we made, the hard work that all of us did, and I can appreciate how much more you were called upon to endure during the whole period of four years; the sacrifices in men, resources, and money. It was a very great pleasure to me, during the time that we were in the war to be able to do things at times to co-operate with the wishes of the Dominion. I recall that during the year 1918, there was an embargo upon the shipment of gold from the United States; and that the executive order of the President put upon the Federal Reserve Board the duty

[Mr. W. P. G. Harding.]

and responsibility of issuing licenses permitting exports of gold which might be deemed to be in the public interest; and I recall that on one occasion Mr. Pease, who was then President of the Canadian Bankers' Association, came to Washington with three or four of his associates, and told us something of your currency system. He came there asking for a license to export to Canada as much as \$25,000,000 of gold, which might be needed as cover for additional currency. The Federal Reserve Board very willingly granted the license. I never followed it up. I did not recall whether any exports were made under that license, but in mentioning the matter yesterday, I found that you imported no gold under that license; it was a precautionary measure only. It very often happens, as you know, when there is a run on a bank, if the depositors find they can get their money, they do not take it. In the same way, when the Dominion authorities found that the gold was available in the United States if they wanted it, they managed to get along without it. So, we did you a nice neighbourly act, saved our politeness, and kept our money too.

I was not aware that there was any movement to amend your banking laws in Canada, until about two weeks ago. I was in Washington on another matter, and called at the offices of the Federal Reserve Board. I was informed that the Governor of the Board had just received a telegram from Mr. Hay asking if either I or a representative of the Federal Reserve Bank of New York would come and testify before this Committee. The Board decided that in view of the fact that I had been President of a member bank in Alabama, had served as a member and governor of the Federal Reserve Board for eight years, and was now Governor of one of the Federal Reserve banks, it might be well for me to come. The members of the Board, in discussing the matter with me, outlined their views, which are entirely in accord with my own, to the effect that I should not come to Ottawa with any idea of giving you gentlemen advice, especially unasked-for advice. Of course, any knowledge that I have of the Canadian banking system is derived from what I have read about it. I have had no practical experience with it; my knowledge of it is necessarily superficial. But, I am here to outline to you, in a broad way, just what the Federal Reserve system of the United States is, and what it is not; and then after I do that, I will tell you what its functions are, some things that it can do and does do, and some things that it cannot do. Then you will be in a much better position I think, to decide for yourselves whether or not you wish to modify your own banking laws so as to incorporate some similar structure into your banking system here. There is quite a long story connected with the inception of the Federal Reserve system.

Back in the year 1791, Alexander Hamilton, who was the first Secretary of the Treasury—and "Secretary of the Treasury" is the name that we give to our Finance Minister—advised that in his opinion it was necessary to set up a Central Bank, and Congress passed the necessary legislation, and the first bank of the United States was incorporated and organized. At that time, the United States was a small country, and a very poor country, infinitely smaller and poorer than your great Dominion of Canada is to-day. The population was I suppose, from three and a half to four millions and the natural resources of the country were largely undeveloped. There was not very much accumulated wealth. It was necessary to rely upon Europe for the capital with which to inaugurate the first Bank of the United States. If I remember correctly, the majority of the stock was held in Holland. Some little American capital went into it. That bank was given a charter for twenty years. It had the note-issuing privilege, and it functioned well and served a very useful purpose. But, meanwhile, during those twenty years, the country had been developing, and there were a number of banks chartered by different States, such as Pennsylvania, New York, and Massachusetts, and in 1811, when the



bank's charter expired, there was considerable opposition to the renewal of the charter. A good many of the State banks were opposed to the renewal of the charter, and they were successful in their opposition. By a very small margin in one of the Houses, the Bill renewing the charter was defeated.

Then we got into the war of 1812 with Great Britain. In 1816, the country was in very bad condition. The then Secretary of the Treasury—Mr. Albert Gallatin, who, as a member of Congress had opposed the renewal of the charter of the Bank of the United States—saw the need for another institution, so he reversed his position, and came out in favour of a new Bank of the United States, which is known in history, as the second bank of the United States. That was incorporated along the lines of the original bank, with a larger capital, and a larger proportion of American ownership. The controlling ownership was still private; and the bank established a number of branches. It had branches in places like Portsmouth, New Hampshire; Natchez, Mississippi; Chillicothe, Ohio; all places which are comparatively insignificant now, neighbouring cities having outstripped them. In the year 1819, this bank got into bad shape, and it looked as though it was headed for failure. The management was changed. Mr. Biddle of Philadelphia became president—Nicholas Biddle—and for some years it was successfully operated; but, it began to get into politics. In New Hampshire particularly, the branch bank directors were members of the party which was opposed to the party represented by Andrew Jackson, and there was complaint that one man had gone to the bank to get a loan of \$500, and was turned down. Mr. Biddle was a high spirited man, and he undertook to defend his institution. Andrew Jackson was elected President in 1828, and in his annual message to Congress for the year 1830, he took a very strong position against the renewal of the charter of the bank. The bank had the note-issue privilege, and received the government deposits. Jackson was unwilling to wait until the expiration of the bank charter. He issued an order to his Secretary of the Treasury to remove the Government deposits from the bank. The Secretary of the Treasury demurred, and Jackson removed him. He appointed another Secretary of the Treasury, who, before he became Secretary of the Treasury, was willing to sign the order to remove the deposits; but, after he got into office he saw that the removal would create confusion, so he refused to sign the order, and he in turn was removed. Finally, President Jackson got a man who was willing to sign the order, after a period of several months. Meanwhile, the Presidential election of 1832 came on. Jackson was a candidate for re-election and Henry Clay, the great Whig leader opposed him. The bank was the main issue in that election. Unwisely, perhaps, the President of the Bank (Mr. Biddle) became aggressively active in politics as a very pronounced supporter of Henry Clay, on a Bank Platform, and the Bank got into politics. You know, it has been our experience that it is unsatisfactory for banks or bankers to be actively engaged in politics. Sometimes a small country bank may take part in politics very well, but it is an exceedingly dangerous thing for the larger banks to engage in political activities; it reacts on them.

The election of 1832 resulted in a very decided Jackson victory, and finally the bank's charter expired, without renewal. That was in the year 1837. The bank then took a charter from the State of Pennsylvania. It had lost its Government deposits, it had lost its prestige, and it had lost to a large extent its ability to circulate its notes, and it led a very troubled existence. The panic of 1837 affected it severely and after one temporary suspension it closed finally and forever in the year 1841.

The United States afterwards adopted the sub-treasury system, under which all collections of moneys for the United States Government went to the treasury



and to the various sub-treasuries, and be locked up in safes. That was found to be an unsatisfactory proceeding, because it took money out of circulation. This was the period of State bank notes or "yellow dog" currency. Anybody could start a bank in the States and issue circulating notes. The laws of the States were various; there was no uniformity at all. A few of the States, such as Louisiana had very good banking laws. There was a strong bank in Wisconsin known as George Smith's bank. The State Bank of Indiana was a very good institution. But as a rule, parties who held notes issued by State banks would find that the value of those notes varied directly with the square of the distance from the office of issue, so that a man working his way from Louisiana to New York with his pocket full of notes issued by a bank in Louisiana by the time he got to Tennessee, would find his notes at a discount. He would trade them off and get Tennessee notes, then when he got to Virginia he would find that they were again at a discount, so that when he got to New York he would find the amount of his pocket money considerably reduced by reason of these successive discounts.

The country muddled along up to the time of the Civil War with State Bank notes as the main circulating medium. There were many bank failures in 1857, when there was another financial panic, and the note holders, as well as depositors lost their money. Then the Civil War came on, and the United States Government was hard put to it, to find money to meet the expenses of the war. Bonds bearing interest as high as 7.3 per cent were issued, the gold standard was abandoned and governmental expenses were met in part by the issue of Treasury notes or "green backs" as they were called, which although fiat money, were made by law legal tender for all debts public or private except customs. Despite the high rate of interest they bore, bonds went to a heavy discount and the green back dollar at one time had a value of only 40 cents as compared with the gold dollar. As the war progressed, it became increasingly difficult for the Government to sell its bonds and during the year 1863, legislation was enacted which provided for the charter by the government of National banks which were given the privilege of issuing circulating notes against the security of United States bonds. At first the banks were allowed to issue notes only to the extent of 90 per cent of the face value of the bonds held, but later on when the bonds went to par or a premium, the law was changed so as to allow the banks to issue notes up to the face value of the bonds. These National banks notes were not made legal tender, but as the issuing banks were required to keep a redemption fund with the United States Treasury which also held the bonds against which the notes were issued, they circulated everywhere on a parity with the paper money issued by the Treasury itself. In 1866, Congress enacted a law imposing a tax of 10 per cent upon the circulation of state bank notes which forced their retirement.

The volume of National bank currency at the time of the outbreak of the World War was about 770 million dollars. These notes were issued by over 9,000 National banks throughout the United States, all against the security above described. The chief merit of the National Bank notes was that they were a National currency, worth as much 2,000 miles away as at the domicile of the issuing bank and that they were just as good, even though the bank had failed, as if the bank was solvent and doing business as usual, because the Government was back of them, and would redeem the notes out of proceeds of the sale of bonds held as security. National bank notes had one fatal defect, however, which is inherent in all bond-secured currency; that is, they were totally inelastic; they could not expand or contract in accordance with the demands of trade and commerce. They were a fixed quantity; and their volume depended primarily upon the supply and the price of United States bonds.

When the United States 2 per cent bonds went to a premium and sold at 109 or 110 many banks found it more profitable to retire their notes, sell the bonds and take the premium.

There was a disastrous panic in 1893, and another in 1907. The 1893 panic was a Free Silver panic. The people were afraid that we were going on a silver basis. The 1907 panic was totally different in character. Under the Federal Reserve system that panic would not have occurred. The act of March 1900, had established firmly the gold standard, and in 1907, there were no fears as to the quality of our currency. The only trouble was, there was not enough currency.

The National Banks were absolutely unable to do anything towards relieving these stringent conditions by issuing new currency, because they had first to buy bonds. The United States government was not issuing any bonds, and the banks had no money to buy bonds with. If a bank had \$100,000 in its vaults, it could do as much by lending that money as it could by exchanging that amount for Government bonds and issuing \$100,000 of its own notes. The bonds bore only 2 per cent interest, while the note issues were taxed by the Government  $\frac{1}{2}$  of 1 per cent and there was the cost of the plates, the cost of printing the currency, and the cost of shipping charges back and forth, so that all the profit there is in a National Bank note issue, is a commission of about  $\frac{3}{8}$  of 1 per cent. Many of the larger banks, they have retired their circulation voluntarily, and the National Bank note circulation is now largely furnished by country banks, which see some local advertising value in having in circulation notes bearing the name of the bank, and the signatures of the President and Cashier.

The events of the year 1907 brought to the American people a realization that their banking system was defective. Under our currency system; we had experienced the major panics of 1837, 1857, and 1873; we also had a minor panic in 1884, another in 1890 at the time of the Baring trouble, a major panic in 1893, a very acute stringency in the fall of 1902, when call money went to 125 per cent on the New York Stock Exchange, and a major panic in 1907. Congress finally decided to do something. A monetary commission was appointed with Senator Aldrich of Rhode Island as Chairman. That Commission made an exhaustive study of the banking systems of the world. Part of the Commission came to Canada, to study your Canadian banking system, and there is a report on your Canadian banking system which forms one volume of the report, which included altogether some twelve or fifteen volumes. The Commissions studied also the systems of England, Germany, France, Holland and Italy. The report of the Commission is probably the most elaborate report upon banking conditions in the world that had ever been made.

*By Mr. Ladner:*

Q. May I ask, what is the title of that report?—A. It is the Report of the National Monetary Commission.

It was realized that it would never do to make such a radical change in our banking system as would impair the usefulness of the banks we already had. It was realized furthermore that a good deal of time was going to be necessary to develop a well-adjusted and well-thought out banking system—as there were so many various ideas concerning what should be done. There was devised therefore a temporary or emergency measure, in order to tide over any situation which might arise until a permanent measure could be enacted. A Bill was enacted known as the Aldrich-Vreeland Act. Mr. Vreeland was the Chairman of the House Committee. The Aldrich-Vreeland Act, provided for the establishment of National Currency Associations, to be organized by groups of National Banks, not less than ten in number, and having a fixed minimum of capital. Through these associations banks were permitted to issue emergency currency identical in form with the United States National Bank notes. I may

[Mr. W. P. G. Harding.]



say that there was a slight change at the time the Act was passed in the wording of the National Bank note. In the early National Bank notes we find these words, "Secured by bonds of the United States deposited with the United States Treasurer". With the passing of the Aldrich-Vreeland Act that language was changed to read, "secured by deposit of United States bonds or other securities with the United States Treasurer". After the Aldrich-Vreeland Act expired by limitation, this language was changed back to its original form. No use was ever made of the Aldrich-Vreeland Act until the outbreak of the World War in 1914. A number of National currency associations had been organized in various parts of the country in order to be ready in case there should be any great monetary stringency. The law originally limited the operation of the Act to June 30, 1914, but the Federal Reserve Act extended this period to June 30, 1915. This was a wise proceeding for, while not a dollar of emergency currency had been issued up to June 30, 1914, the total circulation of these emergency notes during the crisis which followed the outbreak of the war amounted to about 386 million dollars, all of which was retired before the final expiration of the Aldrich-Vreeland Act on June 30, 1915.

The plan was that these National Currency Associations should meet to consider the collateral offered by the various members as security for their notes, and if the majority of the association approved of the securities, they would certify the same to the Treasury of the United States at Washington and they could receive National Bank notes which were identical in form to the National Bank notes issued in the regular way against the United States bonds.

This emergency currency was subject to a graduated tax, beginning I believe at 3 per cent for the first month, which tax increased progressively month by month until it reached 6 per cent thus becoming a prohibitive tax, in order to ensure its retirement.

I will go back, for a minute. Following the year of the report of the Monetary Commission, Senator Aldrich introduced a bill in the Senate of the United States, to establish the National Reserve Association of the United States. In brief, this was a Bill to establish a central bank in the United States, one single central bank, with branches. There were to be 45 directors, to be selected from various sections of the country. If I remember correctly it was designed to establish about forty branches. This bill was debated in Congress for about two years, but it was never put to a vote; there was strong opposition to it. A great many people were afraid of a central bank. They were afraid of the concentration of credit control; they did not like the idea of one group of men sitting as arbiters of the entire credit of the country. In the election of 1912, due mainly to a Republican split the Democrats came into power with Woodrow Wilson as President, with a Democratic majority in both Houses. Mr. Glass was appointed Chairman of the House Committee and Senator Owen Chairman of the Senate Committee. Each prepared Bills, which were afterwards merged into one Bill known as the Glass-Owen Bill, and that Bill finally passed both Houses of Congress and became law upon the signature of the President on the 23rd of December, 1913. This Act did not provide for a Central Bank. On the contrary it provided for the establishment of not less than eight and not more than 12 separate banks to be known as Federal Reserve Banks, to serve as many districts throughout the country, to be determined by a Federal Reserve Organization Committee composed of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency whose office, I presume is somewhat analogous to that of your Inspector-General of banks. They took a trip through the country, held hearings, and finally decided that they would divide the country into twelve Federal reserve districts. Those districts varied greatly in size. The Western district embraced nearly one-third of the territory of the United States; the New



England District comprised the New England States only; the Philadelphia District only parts of Pennsylvania, and New Jersey and Delaware. Other districts of various sizes, were formed; The law provided that each Federal Reserve Bank was to have a capital of not less than \$4,000,000, and as the capital was based upon the capital and surplus, as we call it, or rest or reserve, as it is called here, of the member banks, it was necessary in sparsely settled areas to include a great deal more territory in order to provide the necessary capital than was the case in the more densely populated districts of the east.

These twelve Federal Reserve banks are legally autonomous units. They have a charter from Congress, just as the National Banks have. They are under the supervision not of the Comptroller of the Currency, as the National Banks are, but of a central body, appointed by the President, and confirmed by the Senate, known as the Federal Reserve Board. The Federal Reserve Board has general supervision over the Federal Reserve banks, and functions as a co-ordinating agency, to harmonize their operations to standardize their policies and prevent any conflict between them. I have here, a copy of the Federal Reserve Act, which I shall leave with you, Mr. Chairman. It is not very lengthy. It defines the powers of the Federal Reserve Banks, also the powers of the Federal Reserve Board. I will read very briefly from it. The Federal Reserve banks at first had succession for a period of twenty years, until last year, when some additional banking legislation was passed in Congress, extending the powers of National Banks in order to enable them better to meet the competition of the State banks and trust companies. The charters of the Federal Reserve Banks were extended, so that they now have indeterminate charters. They have succession until their charters are revoked by Congress or are forfeited for violation of the law; in other words, the Federal Reserve Banks will continue indefinitely unless they violate the law or lose public confidence. They have power to make contracts, to sue and be sued, their operations are conducted under the supervision and control of their boards of directors who have all powers granted pursuant to the provisions of the Act, and such incidental powers as usually appertain to the office of directors of banking associations.

Said Board shall administer the affairs of said Bank fairly and impartially and without discrimination, in favour of or against any member bank or banks, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

The United States government does not own one dollar of stock in any Federal reserve bank although the law provides that, in the event of liquidation, any surplus remaining after all obligations and claims have been fully met shall revert to the United States. Whenever these banks are spoken of as government banks, and they are frequently so called in the United States, an incorrect idea is conveyed. While they are required to act as fiscal agents of the Treasury and perform the functions formerly exercised by the sub-treasuries which were abolished in 1919, they are not in a legal sense government banks. They are exempt from taxation in any form except local taxes on real estate owned by them, and the officers and clerks of the Federal reserve banks are not government officials or employees. The Directors are nine in number for each bank. The stockholders, that is the member banks, choose six of these directors; the Government through the Federal Reserve Board, appoints three. The directors are divided into 3 classes, A, B, and C. When they vote for directors the member banks are divided by the Federal Reserve Board into three groups; the larger banks having approximately the same amount of capital, form the first group; they choose some bank officer who is representative of that group

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The middle-sized banks forming the second group, elect one of their number as their director, and the small banks, forming the third group, elect their own representative. So that, on the Board of Directors of every Federal Reserve Bank, we have a big banker, a middle-sized banker, and a small banker.

Then we have what are known as Class B directors. Class B directors must be actively engaged in Commerce, Industry or Agriculture. They may hold stock in member banks, but they are not allowed to be directors of member banks, and they are elected in the same way, by groups one, two, and three, the large sized, the middle sized and the small sized banks. So we have three bankers and three business men on each Board of Directors.

Then we have Class C directors. These class C directors are appointed by the Federal Reserve Board. They are not permitted to be officers, directors, or stockholders in any bank; they must have nothing whatever to do with the banking business; they must keep outside the banks. But they are in the minority, you see. Each bank is controlled by its directors, and the member banks appoint six out of the nine.

Then these directors elect their own officers, just as the chartered banks do. The Federal Reserve Board takes one of its own appointees, a class C director, and names him as Federal Reserve Agent and Chairman of the Board of Directors. He presides at Board meetings. He represents the Board as its agent on the spot, and he supervises the note issues. All applications for Federal Reserve Notes must come through him, and when the security called for by the law is given, he issues the notes to the bank.

The duties and powers of the Federal Reserve Board have been very much misunderstood. True, it is a banking board, it is a supervisory body, but it is in no sense a bank. The Federal Reserve Board has no power to lend anybody five cents; it has no power to require any bank to take a piece of paper which, in the bank's judgment, is not good. The Federal Reserve Board can define eligible paper. I will read you a few of the powers of the Federal Reserve Board, which will be found at page 21 of the Federal Reserve Act.

11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal Reserve bank and of each member bank.

They have a corps of examiners or inspectors, who go to each Reserve bank and branch and make at least one examination a year.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal Reserve banks to rediscount the discount paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

That was a very important function in 1919 and 1920, because the reserves of some of the banks would have been very seriously impaired, and in one or two cases, wiped out altogether, but for the ability of those banks to discount with paper of other Reserve banks which had reserves in excess of the legal minimum.

(c) To suspend for a period not exceeding thirty days and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act:

That was never done. It might have been dangerous, a published statement showing reserves below the legal. If you attempt to go below these reserves, your minimum would have been likely to create alarm. We managed by having some Reserve banks rediscount paper for others to keep the legal reserve intact, even during the tightest pinch.



The Federal Reserve Board can remove or suspend any director of the Federal Reserve banks for cause, and it exercises general supervision over Federal Reserve Banks. In section 16, there is a very important function of the Federal Reserve Board. It is Section 13 I should say. It relates to the rediscounting function.

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest, by such bank, as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange, arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act.

The Board issues its regulations elaborating upon the Act, and no Federal Reserve Bank can discount any paper, which, under the regulations of the Board, is ineligible; but, on the other hand, it is not obliged to discount paper which though technically eligible, if in its opinion, the paper is doubtful or not good. Now, while the endorsement of the member bank is required, it is the policy of the Federal Reserve Banks, as understood and approved by the Board, that each paper should stand on its own bottom. In other words, we must not take paper technically eligible, but of doubtful goodness and rely solely on the endorsement of the member bank. In amounts exceeding \$5,000 we must have a statement from the maker of the paper and he has to have a satisfactory enough showing to justify taking the paper without the member banks' endorsement.

As to time limit. Notes and drafts and bills admitted to discount under the terms of this paragraph, must have a maturity at the time of the discount of not more than 90 days exclusive of grace. An exception was made in the case of agricultural paper. In the original Act, the time limit on agricultural paper was six months and that was afterwards extended to nine months; so that, agricultural paper may be discounted by the Federal Reserve Bank if it has a maturity even as long as nine months; but all other paper must be limited to ninety days.

Now, the Federal Reserve Board, as I pointed out, cannot make any loans itself nor can it compel any Federal Reserve Bank to make a specific loan. The Federal Reserve Banks fix their own rates of discount, which are effective, however, only upon "review and determination" of the Federal Reserve Board. A question arose last September as to whether or not the Federal Reserve Board, under its powers of Review and determination could change the rate of discount of a bank which is unwilling to change it itself. The Federal Reserve Bank of Chicago, had a four per cent rate. All the other banks at that time had a three and a half per cent rate, and the Federal Reserve Board passed a resolution fixing the Chicago rate at three and a half per cent. That created a considerable disturbance, and the Governor of the Board—Mr. Crissinger—resigned, although he said that episode had nothing to do with his resignation, and the President appointed Mr. Young, who was Governor of the Minneapolis Reserve Bank, to succeed him. I do not think that a similar situation will occur again. The law provides that each Federal Reserve Bank by its Board of Directors, shall establish from time to time rates of discount for each class of eligible paper, subject to the revision and determination of the Federal Reserve Board; so that the practice, with that single exception, has been that the directors of the bank take the initiative if they want to change the rate. If the Federal Reserve Board does not approve, the old rate holds. If the Federal Reserve Board does approve,

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the new rate comes into effect. There is no monopoly or centralization of credit, and to guard against this Congress gave us twelve banks instead of one central bank. Our legislators were afraid of the concentration of credit. They were perfectly willing to prescribe, in a broad way, the qualities which must be possessed by eligible paper and leave the Federal Reserve Board with authority to elaborate upon that somewhat and define them more specifically; but they were not willing to give the Federal Reserve Board the power of saying to a bank "you must take this piece of paper or you shall not take this piece of paper," assuming that the paper is eligible under the law. That power is vested exclusively in the Federal Reserve Banks, and they in turn, delegate it to their responsible officers as authorized by law to do.

*By Mr. Ladner:*

Q. Could any of the Federal reserve banks have different rates?—A. Yes, it frequently happens that they have different rates; but it is rather hard to maintain different rates for a very long period at a time. For instance, if we have a four per cent rate in New York, Boston and Philadelphia, the eastern centres, and the Reserve Banks should try to maintain a four and a half per cent rate in the South and West, people there are apt to become restive. They might say, you have low rates in these centres where there are large stock-market transactions, and in our agricultural districts, we have a higher rate; and they clamour for the lower rate. The result is that they usually get the same rate as the East. New York is the principal money market of the country, and the rate of the New York bank is the key rate. That is the only rate which has an effect internationally. Or, it may not be the only one, but it has a greater influence, I should say; a much greater international effect than any other rate. And you will find that whenever New York changes its rates, especially downward, there is a disposition to follow in other sections of the country. It would be impossible for Boston, for instance, to maintain a lower rate than New York. For if New York had a four per cent rate and we undertook to have a three and a half per cent rate in Boston, we would soon have our reserves reduced, because a great many manufacturing and mercantile concerns, which have banking connections both in Boston and New York, would transfer their borrowings from New York over to Boston, and the banks in Boston would have to rediscount with us, and we would soon be out of reserve. But we might in Boston maintain a higher rate than New York, and we did so once for a period of six months. Back in 1925, I think, New York for a while had a three per cent rate, and we maintained a three and a half per cent rate. That caused us no inconvenience, but we could not work it the other way round.

However, the control of the Federal reserve banks over the money market does not come so much through the discount rate as it does through the open market transactions which are authorized under Section 14 of the Federal reserve Act. The discount rate of the Federal Reserve Bank, after all, is a negligible quantity in most sections. Take these various sections in the South and West that get restive whenever their Federal Reserve Banks have a higher rate than the New York rate. That does not mean very much to the farmer or merchant in those sections. He cannot get accommodation direct from the Federal reserve banks, he has still to go to the bank he deals with. And those banks often charge what the traffic will bear. They charge whatever the law allows them to charge—that is one consideration—and whatever the competition they have allow them to charge. Now, the legal rate of interest in most of the States is from six to eight per cent. In my native State of Alabama the legal rate is eight per cent.

*By Mr. Woodsworth:*

Q. Is that invariable, that legal rate?—A. Yes, but in Alabama there is a heavy penalty for usury. Forfeiture of all interest and a penalty besides.

Q. Broadly speaking, the eight per cent is invariable, you say?—A. Yes, except in cases where the rate is reduced as a result of competition. In a number of the western States, they have legal rates of eight per cent, and, contract rates of ten to twelve per cent are permitted. A certain western state in the Kansas City Reserve district has a ten per cent contract rate; and in 1921, there was a demand that the discount rate of the Reserve Bank be reduced from 6 per cent to 5 per cent, although the Reserve banks of Chicago, New York and Boston all had a 6 per cent rate at that time. They claimed that such a reduction would give borrowers cheaper money. In rediscounting paper, member banks are required to state on their applications the rate charged the borrower. In a study we made, covering a week's operations at the branch bank in the city where all business in the state under discussion is handled, we found that two loans had been made at six per cent. Those loans were to large concerns which had lines of credit open in New York and Chicago. We found that there was one loan made at seven per cent; four or five loans made at eight per cent, but the great majority of loans were made at ten per cent. In other words, the small people who had no credit, except locally, borrowed from their local banks and these banks charged them all the law permitted them to charge.

*By Mr. Ladner:*

Q. What year was that?—A. 1921. So the banks were lending money at ten per cent, and rediscounting with the Federal Reserve Bank, and the rate then was six per cent. We found that a mere reduction in the discount rate, in a great many sections of the United States has no effect whatever upon the rate the banks will charge their local customers; it is effective mainly in the centres. And there is another thing. There is a theory which was prevalent at one time, that the bank rate should always be somewhat above the current rate. Now, that is a confusing thought. It is true in London, that the bank rate is higher than the bill rate. The Bank of England's official rate to-day is four and a half per cent; but this does not mean that all its transactions are at that rate. That is merely the minimum rate at which the Bank of England will buy bills of exchange. The joint stock banks in England do not rediscount with the Bank of England, as the American banks rediscount with the Federal reserve banks. Joint stock banks in England, when they need money, will take prime bills of exchange to the Bank of England and sell them to the bank, and its official rate of four and a half per cent is the rate at which the Bank of England will buy prime bills to-day.

*By Mr. Ladner:*

Q. Is that an out and out sale, without liability on the part of the Bank?—A. I understand that is an out and out sale.

The CHAIRMAN: I will ask the members of the Committee to allow Mr. Harding to follow his trend of thought and then, when he has concluded his statement, there will be time for questions. We do not want to take you off your "line," Mr. Harding.

WITNESS: I am nearly through my story.

As I have stated, the Federal Reserve rate in New York and Boston to-day—and in fact I believe, in all the Federal reserve banks the rate is now uniform—is four per cent. Well, I know that in Alabama, for instance, the current rate for reputable concerns, unless they have outside connections in New York or Chicago, or other large centres is six per cent, and I think that five per cent

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is the minimum rate at which any bank down there will take any paper, although their Federal Reserve rate is four per cent. In Boston and New York, the rates for prime mercantile paper are from four and a quarter to four and a half per cent. In other words, the going rate for money even to the best customers is always a little above the rediscount rate of the Federal Reserve Bank, but that does not apply to the bill rate. The Federal Reserve Bank rate is related directly to the bill market. A bill of exchange, a banker's acceptance, is the highest grade of commercial paper obtainable. It is high grade for this reason. What we call a prime bill, in the first place, represents a transaction where the seller has sold goods to a reputable purchaser. The bills are drawn anywhere from thirty days to six months' time. This purchaser has made satisfactory arrangements, either by the deposit of collateral, or by the filing of a satisfactory statement, with some strong bank or acceptance house, and that bank or house has put its name on the bill as acceptor. In other words, it obligates itself to pay that bill at its maturity, and then in addition, the bill carries the responsibility of the drawer and of the endorser. So, we have a liquid paper; a paper that in all human probability is going to be paid at maturity; representing the consumption of goods; taking them out of the market entirely; not a speculative proposition at all. And, when it is a banker's acceptance of the highest grade, it commands of course, the lowest rate in the market.

The market for prime bills depends upon the supply of bills in the first place, and upon the general tone of the money market, in the second place. There have been times when prime bills would sell at two and one quarter per cent—the rates now are  $3\frac{1}{4}$  to  $3\frac{3}{4}$  according to maturity—and of course, the drawer who gets a bank to accept for him, has to pay the bank a commission. But, assuming that the commission is one-quarter of one per cent for each ninety days, or 1 per cent a year, you can see that the drawer of the bill gets very cheap money; but the transaction must be bona fide, and the acceptor must be of unquestioned standing. Now, the bank rate is in order for the bill to be prime related closely to the bill rate, and we keep our bank rate a little above the market rate for prime bills of exchange, just as in the case of the Bank of England. But, the current rate for money to borrowers even in the financial centres is usually a little above the Federal Reserve Bank rate.

The Federal Reserve system was never able to function normally, until about five years ago. It was organized on August 10th, 1914, when the Federal Reserve Board took office. The Federal Reserve Banks were not opened until November 16, 1914. We were in a very chaotic condition, owing to the breaking out of the world war. Our stock exchanges were forced to close. The cotton and grain exchanges were closed. There was much congestion at the ports because of inability to get shipping. The German raiders were still on the sea, many merchant ships were tied up, and insurance rates were very high. Of course, the wheat situation was unlocked first, because people are obliged to have something to eat before they think about what they are going to wear. The cotton situation was very bad. There was great distress in the cotton growing regions in 1914. There was no organized market for cotton. No one knew what the price of cotton was and spasmodic sales were made at from 4 to 6 cents per pound, while the price had been above twelve cents before the war broke out. In 1915, things began to adjust themselves.

The Federal Reserve Banks are obliged to pay their stockholders six per cent cumulative dividends and I want to speak now of the stockholders and of what they do. The law provided that every National bank must become a stockholder, and member of the Federal Reserve Bank within twelve months, or else forfeit its charter. So, they were forced into the system. The law also provided that the State banks and Trust companies, over which Congress has



no direct control, because they are creatures of the States, and not of the national Government, might become members of the system if they met certain specified requirements, but it was purely voluntary with them. But, no way was provided for a State bank to withdraw from the system after it once became a member. So that although there were over 15,000 State banks, and Trust companies, in the United States, only 65 of them up to June, 1917, had become members of the Federal Reserve system. The held back. They would say, "we do not know enough about this experiment." Some of them thought pretty well of it, but they did not like to get into a place from which they could not get out; and it was not until the United States entered the war and not until Congress amended the Act by providing that State banks might withdraw on six months' notice, that they came in; and even then, only a comparatively small number, I think about 1,600 or 1,700 State banks and Trust companies are members of the system but in this number are included most of the larger institutions.

The capital stock of the Federal Reserve Bank is a variable quantity. Each member bank must subscribe for stock in the Federal Reserve Bank of its district to the amount of six per cent of its capital and surplus or rest, of which three per cent must be paid in and the other three per cent is subject to the call of the Federal Reserve Board. The Board has never called for the payment of this three per cent and I do not think it ever will. When a bank increases its surplus, it must subscribe for a proportionate additional amount in Federal Reserve Bank stock; it must increase its holdings there. And whenever a bank goes into liquidation, it must return its stock, receiving the cash plus the accrued dividend. At first only one bank, the Federal Reserve Bank of Richmond had sufficient borrowings to enable it to have sufficient earnings to pay a dividend. The banks were in arrears. They had dividends piling up, which had not been paid, and it was not until 1918, a year after we went into the war that all the banks had accumulated sufficient earnings to enable them to take up their back dividends.

There has always been a question in my mind as to what the development of the Federal Reserve system would have been if we had not gone into the war, because the war changed the whole situation. We had the First Liberty Bond issue, and then the second, third and fourth, and the Victory Loan issue. The national debt of the United States on April 2nd, 1917, was in round numbers, \$1,000,000,000, on August 1st, 1919, the national debt of the United States stood at over \$26,500,000,000, an increase of over \$25,000,000,000 in a year and a half. That meant enormous expansion or inflation. We maintained the gold standard. Our Federal Reserve notes were always at a parity with gold, but the Federal Reserve System was obliged to adapt its policies to the needs of the Treasury. The Treasury policy was to finance the war one-third by taxation, and two-thirds by bond issues, and in order to float these tremendous bond issues the Federal Reserve Banks became great bond-selling organizations. The Governor of each Federal Reserve Bank was the organizer in his own district, and the member and non-member banks became large buyers of bonds, and urged their customers to buy bonds, and were encouraged to make loans on bonds and to rediscount with the Federal Reserve Banks. The Treasury fixed the rate of interest on the bonds low in order to save money, and it was necessary that the Federal Reserve Banks should fix their discount rates at a correspondingly low figure. The Reserve bank rate was much lower than if it had been considered from an economic standpoint, but in war time, one cannot stress economy or economies. War itself is the most uneconomic of all processes. We were in the fight and we were going to muddle through with it, so, we maintained a low rate, say, four per cent interest, all during the war, and during the Victory Loan period when the Treasury had to float

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\$4,500,000,000 in May, 1919, to take up the odds and ends of the war expense; and that was a very difficult loan to float, because during the war we had the patriotic impulse, we could talk about "swatting the Kaiser" and that sort of thing, but after the war, that impulse was all gone. It was simply a cold proposition and people could buy the war issues at a discount, and yet were called upon to buy these new bonds at par, which was a pretty hard proposition. But the Victory Loan was put over, and put over with the help of the Federal Reserve system by maintaining artificially low discount rates. Of course, the thing came to plague us later on, but we had to consider one thing at a time. I was going to say that nowadays the Federal Reserve system can function normally; all these matters have been gone through with; we have passed through the post-war reaction, which was world-wide, it was not confined to the United States. They felt it in Japan with their silk panic. You felt it here in Canada. So did the people in France, Great Britain, and all over the world. It was a natural reaction. One thing that happened in 1919 was that our exports to Europe kept up in great volume. Their necessities were very great, and they still had available two and a half billion dollars of the credits that Congress voted them early in the war, so that America financed her exports in 1919 largely out of her own Treasury. That is, we lifted ourselves by our own boot straps. Thus the crisis came in 1920 instead of 1919. Now, beginning with the year 1923, things began to get normal, and the money market came more under the control of the Federal Reserve system—and when I speak of the Federal Reserve system, I mean the twelve Federal Reserve Banks, and the Federal Reserve Board; these together form the Federal reserve system. The banks have to consult the Board about their policies, and the Board consults the banks about its policies, and the Board depends entirely upon the banks to execute the policies agreed on. In 1923, the Board appointed a Committee known as the Open Market Committee, composed of the Governors of the Federal Reserve Banks of New York, Boston, Philadelphia, Cleveland and Chicago. The board chose those cities partly because the larger volumes of open market transactions are made in those cities, and particularly because they are all geographically located so that the committee can get together after a night's ride. The Committee at certain intervals meets at Washington with the Federal Reserve Board to consider the situation, and to outline a policy for say, two months ahead. A broad outline of policy would be: The Bill market has to be taken care of. The Federal Reserve Banks are always ready to buy or sell bills. They are the mainstay of the bill market. They do not play with the bill market with a view of influencing the general money market. Such influence is exercised through purchases and sales of short time government obligations. The United States Government is constantly exchanging short-time certificates for long-term bonds. It is constantly reducing its indebtedness, and in its funding operations, the Treasury finds it convenient to have outstanding a large amount in short time obligations maturing in three, six, nine and twelve months; so we have always available at frequent intervals a supply of United States Treasury certificates. The rates of interest have varied from three per cent to three and a half per cent in recent years. The open market committee acts for all twelve Federal Reserve Banks and purchases which are made are allocated pro rata on the basis of their capital and surplus among all the twelve Federal Reserve Banks; and the sales are allocated in the same way, out of the securities held subject to order of the Committee by the Federal Reserve Banks. It has been the policy of the Committee to have a stock of short-time obligations on hand amounting to a minimum of say one hundred and fifty to a hundred million dollars, and a maximum of five hundred to five hundred and fifty million dollars. There are times when the Committee neither buys nor sells; they let the money market rock along. A very interesting situation came up in

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1927. A considerable outward movement of gold took place and whenever gold is shipped out of the country, it affects the money market more or less, because although the gold comes out of the Federal Reserve Bank, it comes out of the bank by means of a cheque drawn on some member bank, and the member bank draws on the Federal Reserve Bank. I may say incidentally, that the reason the Federal Reserve system has the control and custody of gold in the United States held outside of the Treasury is that gold does not count as any part of the legal reserve of a member bank. A member bank is required to carry its legal reserve in the form of a collected balance with its Federal Reserve Bank. Any money it keeps in its own vaults is merely till money and this cannot count as a reserve no matter whether it be gold coin, gold certificates, national bank notes, Federal reserve notes, legal tender notes, or silver; so that in order to count as legal reserve, gold must go to the Federal Reserve Bank. So you see that all gold imports eventually come to the Federal Reserve Banks. During times of large gold importations, the Federal Reserve Banks check redundancy by paying out gold certificates, instead of Federal Reserve notes. Five years ago the Boston bank, for instance, had outstanding about two hundred and thirty-five million dollars of Federal reserve notes; to-day it has one hundred and fifteen million dollars' of Federal reserve notes outstanding, the reason being that we have had so much surplus gold coming in, that we deemed it advisable to put gold certificates in circulation and to reduce our Federal Reserve note circulation. If we should have occasion to reverse this process, all we would have to do would be to put aside gold certificates as they come in, and pay out Federal Reserve notes.

About the 1st last July, the Committee had a meeting in Washington, and discussed the situation. Our crop movement begins in the latter part of July, or early in August; the grain begins to move, followed by cotton. The money market had begun to show some symptoms of hardening. We began to buy Treasury certificates, thus taking money out of the Federal Reserve Banks and putting it in the market. This eased the market situation. Later on, there was a very pronounced gold export movement. Gold went to France, it went to South America, to Brazil and the Argentine, and elsewhere. Altogether we lost from the 1st of October to the 1st of January, about \$200,000,000 in gold, which left the country. Some of it came to Canada. You probably have returned it to us by this time, but during your crop moving period our shipments of gold from New York to Canada were about \$30,000,000. To prevent the money market from feeling the effect of these large exports of gold and to avoid the necessity of advancing Federal Reserve Bank rediscount rates with the repercussions abroad which might follow such action, and to facilitate the exports of our surplus crops, the Federal Reserve System decided upon a policy which would keep money easy in the United States in the face of these abnormally heavy movements of gold out of the country. As gold was shipped out, we would buy treasury certificates and thus put back in the market, the money that had been taken out of it because of the gold shipments.

After the 1st of January, there is always a return flow of currency from the agricultural sections, and very often at this period money becomes redundant in the financial centres. In January therefore the Reserve Banks began to sell Government securities, and during January and February, they sold \$150,000,000 of Treasury certificates, which they had previously accumulated, thereby taking out of the market that amount of money. The foregoing is a brief outline of the open market policy.

The Federal Reserve System does not attempt to fix commodity prices. Some economists believe that it could and should stabilize the general price level, and that its policies should be shaped with this end in view. Other economists think differently. In my opinion the Federal Reserve Banks can be helpful and have been helpful in stabilizing the price level by stabilizing

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the money market. In so far as the money market is a factor in the price of goods, a stable money market exerts a stabilizing influence on prices. But there are many things besides the cost of credit or the price of money that enter into the prices of commodities. We cannot get around the very old law of supply and demand. If both the United States and Canada should produce an abnormally heavy crop of wheat; and the corn states should produce a light crop of corn, you would see low prices for wheat and high prices for corn irrespective of any Federal Reserve policy. Banks cannot boost the price of one great staple commodity and reduce the price of another, regardless of the plethora of one or the shortage of the other.

Again, the operation of the tariffs of a country cuts a big figure in prices. Take the case of sugar in the United States; for instance, sugar grown in Porto Rico and Hawaii comes in free of duty and the producers can get better than 4½ cents a pound for that raw sugar, while in the case of Cuba, there is a duty of 1⅛ of a cent per pound on sugar, and Cuban producers have to be satisfied with about 2¾ cents per pound. There are a great many things beyond the purview of banking which cut a very decided figure in establishing prices. All a banking system can do is to bend its efforts towards stabilizing the money market, so that in so far as money is a factor the price level will not be disturbed.

I think that is all I have to say, Mr. Chairman.

The CHAIRMAN: Mr. Harding is willing and anxious I assume to answer any questions he can which will be helpful to the Committee.

*By Mr. Ladner:*

Q. I gather from your remarks, Mr. Harding, that on the open market they buy and sell bills or acceptances. But that is not with the general public; you do not go beyond your member banks do you?—A. Yes, we buy acceptances from brokers who are non-members.

Q. In other words in these sections where they were charging 10 and 12 per cent interest, I had the impression that the Federal Reserve Bank had power to go into a district like that and ease the rate on money by their open market operations?—A. No, it is impossible, because they do not have any acceptances there in ordinary transactions.

Q. Is it possible for the Federal Reserve Bank to control that?—A. That same question was asked at Washington about a year ago. I am glad you brought it up. You are talking about the low rates at which a prime banker's bill can be sold. One man said he lived in the State of Iowa and had occasion to send stuff to Kansas City and that when he would get his provision broker there to accept a draft for him at 60 days, nobody had ever offered to buy that draft from him at 3 per cent; the best he could do was to take it to a local bank at Kansas City, and discount it at 6 per cent. He thought that was unfair. But this is merely a matter of the quality of the Bill. Take a Bill against an International shipment where it is accepted by some well-known bank or acceptance house with millions of dollars back of it and where you know that if you need money at any time, you can sell the bill to somebody else, because there is a broad demand for it on account of the name being well known, it would naturally command a lower rate of discount than a purely local bill accepted by somebody in Kansas City with a rating at about \$10,000, and not known outside of his own town. There is a narrow market for one and a broad market for the other. You can go to any of the banks in Canada and if you have a Bill of Exchange payable in 60 days accepted by the National City Bank of New York for instance, I think the bank will make you a very low rate; but if, on the other hand you go there with an acceptance made by Jim Jones, of Kansas City, whom they had never heard of, and when they look in the Rating book they find him rated at about \$10,000, I do not think they would give you a comparable rate if they bought it at all.

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Q. A Federal Reserve Bank, even in open market operations, deals only with member banks?—A. No, the Reserve banks deal very largely with bill brokers, and opportunities to deal with those not interested in the bill market are rare. Boston is our next largest bill market in the country outside of New York, and we deal with National Banks and Trust Companies there, member banks. We deal also with a number of corporations and firms which are not member banks.

*By the Chairman:*

Q. These are all well-known financial concerns?—A. All well-known financial concerns. The market is open to anybody who wants to come. We require a statement from these people in order to know something about their responsibility. We would not deal with anybody without a statement.

*By Mr. Ladner:*

Q. In the borrowings from the Federal Reserve Bank System, do you have a periodical settlement—that is the first question—where the member banks clean up their accounts, or is it wise to have continuous borrowings?—A. We discourage continuous borrowings. We tell all our member banks that they must not abuse the facilities of the Federal Reserve System. We do not want them to discount with us at 4 per cent in order to lend money at 6 per cent, or to put money on exchange collateral on call, or anything of that sort, and if there is a tendency to abuse it, we raise our rate.

Q. That is an important point. I was going to ask you why you did discourage it, and what means you have of discouraging it?—A. The Federal Reserve System is a reserve system. If we let it come into ordinary every day use or undertake to compete with our member banks, and all the time be stretched out to the limit, what are we going to do when an emergency arises? We are Reserve banks—not commercial banks.

*By Mr. Hanson:*

Q. The primary purpose was to provide an elastic currency system?—A. I will read you the caption or short title of the Act. It is called, "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States," and so forth.

*By Sir George Perley:*

Q. Mr. Harding, you said the lowest rate for prime bills that you know of was about  $3\frac{1}{4}$  per cent. I would like to ask you, in your experience what is the maximum rate?—A. You misunderstood me. The lowest current rate on prime bills is about  $3\frac{1}{4}$  but it has been as low as  $2\frac{1}{4}$  some years ago.

Q. What is the smaller maximum in the last few years?—A. The Federal Reserve Board gives what we call a spread. We are authorized to make these purchases now at from  $2\frac{1}{2}$  to  $4\frac{1}{2}$  per cent, that is a spread of 2 per cent. I believe the maximum rate that we ever charged on a prime 30 day bill back during the time of stringent money, was  $4\frac{1}{2}$  per cent.

You can see the market itself puts a limit upon the bill rate, because when you consider the commission a man has to pay a bank accepting for him, if the rate at which he can sell the bill gets too high and he has to add the commission, it might pay him better to make a straight borrowing.

*By Mr. Ladner:*

Q. At what date or how frequently is the Federal Reserve Bank change made?—A. The Federal Reserve rate is considered at every meeting of the Board of Directors. On an average I supposed it is changed—looking back over a period of five years, I should say the average has been about once every nine

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months. Our reserve percentage has very little to do with the rate. It is simply the trend of borrowing, the member banks' borrowings and the general course of the money market; in other words, the bill market is a criterion.

Q. Are you familiar with the operations of our Bank Act of 1914 in the matter of re-discounting?—A. Just in a general way. There is just one other statement I would like to bring out here, about the Federal Reserve System. It has been very much misunderstood in the United States. It served the country well during the war and it is admitted that the Government would have been unable to maintain the gold standard without it. It would have been obliged to resort to fiat money as it did during the Civil War. Some people in the United States and outside have an idea that the Federal Reserve System has supernatural powers. It is purely a banking system and deals with banks instead of with the general public. The Federal reserve banks do not make loans direct to individuals, firms or corporations. This business is transacted by the commercial banks just as it was before the Federal Reserve System was established. The Federal reserve banks merely rediscount eligible paper for the member banks. The Federal Reserve Board has no legislative powers and its regulations must conform to the requirements of the Federal Reserve Act. Many people have an idea that the Federal Reserve System can prevent commercial and banking failures and that it can provide employment for everybody. Federal reserve banks have no psychic powers which enable them to change human nature, they cannot make the rash cautious nor the foolish wise. In other words, it is impossible to legislate sense and prudence into a man, a good banker is going to take care of himself and an incompetent banker is going to get into trouble no matter on which side of the international boundary line he lives. As a matter of fact, there have been more bank failures in the United States during the past five or six years than in any comparable period in the history of the country. I have here the report for the year 1927 of the Federal Reserve Board, from which I shall quote some figures.

*By Mr. Hanson:*

Q. Before going on with the question regarding the Finance Act of Canada, I would like to ask you if your change of discount rate ever reflects a change in the rate of discount made by the Bank of England from time to time, or is there any connection between the two? Has one any reflex action upon the other?—A. Well, I should think that probably our rate in the United States has now more effect upon the Bank of England than the rate of the Bank of England has on us. I do not want to be quoted as expressing this opinion, but I would like to quote what the Governor of another Federal Reserve Bank said recently.

*By Mr. Matthews:*

Q. They are both based upon world-wide conditions?—A. Both based upon world-wide conditions. As I have tried to point out, our export trade is of very great importance to the United States, and whatever is of importance to agriculture for instance in United States, is equally important to Canada because we are both in the same boat to some extent. Any financial crisis in England or a very high bank rate there, would be the worst thing that could happen to our export trade. I think we are agreed upon that. It has been said that when the New York bank reduced its rate from 4 per cent to  $3\frac{1}{2}$  per cent—I am merely saying what has been stated by others—that the reduction was made in order to enable the Bank of England to protect its own reserves without being forced to raise its discount rates; in other words, it was felt that a spread of at least 1 per cent was necessary to enable the Bank of England to protect its gold reserves.

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Q. And maintain the gold standard?—A. And maintain the gold standard. I know it did have this result, and you can quote me in this; the Bank of England had a  $4\frac{1}{2}$  per cent rate, while our Federal Banks in the United States had a  $3\frac{1}{2}$  per cent rate. This differential was reflected in the bill market. Before the establishment of the Federal Reserve Act, every time a shipment of grain went out of Canada or the United States, it had to be financed in London. The Federal Reserve Act allowed the American banks to accept, and we have developed an important acceptance market. Until last year, we never went over \$700,000,000 of American bills; that was the maximum amount outstanding at any one time. Due to the spread or difference in the rate between New York and Boston and London, and to the natural desire of people to do their financing where money is cheapest, American bills attained a volume last fall during the crop movement, of over one billion dollars, an increase of three hundred millions, which presumably reflects the measure of relief to the English market. In other words, we took that much pressure off the London market and assumed it ourselves.

*By the Chairman:*

Q. Will you complete what you were going to say about the bank failures?—A. I will quote from the Federal Reserve Board report, which is just out.

*By Sir Henry Drayton:*

Q. Did you finish what you were going to tell us about the bank failures?—A. I am going into that now. In addition to the failures, there has been a very marked tendency in recent years in the United States towards mergers and consolidations. It was noticeable first in the matter of the railroads. Fifty years ago we had a great many independent short lines in the United States running from 50 miles up to 300 miles in length. I remember the first time I went to Washington from my home in Alabama. I rode 150 miles, changed cars at Chatanooga, waited there a few hours, then took another train on another railway and rode 200 miles to Bristol, Tennessee, where I had another wait and another change of cars; then I rode 200 miles more from Bristol, Tennessee, to Lynchburg, Virginia, on another road, where I had another change of cars to still another road; I then rode about 125 miles to Washington, where I took a train for New York. That made three changes of cars between my home town in Alabama and Washington, whereas now I can take a sleeping car at my old home and get out of it in New York without any changes. Congress has before it now the Parker Bill, which seeks to force the consolidation of railroads still farther, the idea being to have about 20 independent railways in the United States, so as to equalize earnings and get down to a more consolidated system.

The same thing has been going on in the banking field. The State of Illinois does not allow branch banks. The majority of States do allow branch banks. California is pretty strong on it; you have heard of the Bank of Italy of California. Recently there have been several mergers in New York, Philadelphia, and other cities. Public sentiment in the United States is rather divided on the branch banking question. Twenty years ago there was almost an unanimous sentiment against branch banking but there has been a strong shift of opinion. It is coming around more and more to branch banks and mergers. Here is what the Federal Reserve Board has to say about it. It says that the active member banks on January 1, 1927, numbered 9,260, that is, out of a total of 27,000 banks in the United States, only about one-third of them are members of the Federal Reserve System. On December 31, 1927, the active

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member banks numbered 9,034, a net decrease for the year of 226. Here is what the Board says about that:

During the year 154 banks, joined the system and 101 banks withdrew, so that there was a net voluntary accession of 53 banks to the membership of the system. Of the banks that joined, 83 were newly organized National banks (including 1 bank organized to succeed a member bank that had previously suspended) and 61 were State banks entering the system, 32 becoming national banks, and 29 being admitted as State institutions. Ten banks which had previously suspended resumed operations. Of the member banks that withdrew from the system, 24 were state banks that withdrew after advance notice to the Federal Reserve Board, 2 were dropped from the membership in the system at the expiration of their State charters, twenty were banks succeeded by non-member banks organized for the purpose, and 55 were absorbed by existing non-member banks.

The excess of banks joining the system over banks withdrawing was off-set by losses incidental to mergers and suspensions.

In the matter of failures the Board says:

Decline in the frequency of bank failures during 1927 reflected in part the previous elimination through failure of a large number of weak institutions and in part improvement of economic conditions. In certain of the important agricultural areas and particularly in some of the western, northwestern, and southern states, increased production and higher prices resulted in increased agricultural income and a consequent liquidation of indebtedness at the banks. It was, furthermore, in the regions that had a large number of banks in relation to population, that earlier failures had chiefly occurred, and the remaining banks, which were stronger and better managed, also had the advantage of proportionately larger number of depositors.

The following table shows, by Federal reserve districts, the number of banks that suspended during 1926 and 1927.

In 1926, 956 banks failed. There were none in the Boston district, none in the New York district, four in the Philadelphia district, 9 in the Cleveland district, 61 in the Richmond district, 162 in the Atlanta district, 182 in the Chicago district, 77 in the St. Louis district, 283 in the Minneapolis district, 112 in the Kansas City district, 50 in the Dallas district, and 16 in the San Francisco district.

In 1927 a bank (not a member bank) suspended in the Boston district. I may say it was due to unsound banking methods. By districts, there were two in the New York district; none in Philadelphia; 29 in the Cleveland district; 43 in the Richmond district; 63 in the Atlanta district; 124 in the Chicago district; 82 in the St. Louis district; 142 in the Minneapolis district; 100 in the Kansas City district; 44 in the Dallas district; and 32 in the San Francisco district, a total of 662 in 1927 as compared with 956 in 1926. I have not the figures for 1925 and 1924, but there was an even larger number in those years. The deposits in these failed banks in 1926 amounted to \$272,000,000, and the failed banks in 1927 had deposits of \$193,000,000. You will find that it was the small banks mainly that failed; 37 per cent or 247 had less than \$25,000 of capital; 25 per cent or 165 had \$25,000 capital; 9 had from \$25,000 to \$49,000, and only 2 per cent had from \$200,000 to \$600,000. The number of banks that suspended in towns of less than 500 people was 266. You can see that a bank in a town of less than 500 people with a capital of less than \$25,000 cannot do very much banking business nor could it afford highly competent management. Many of these banks used to pay 6 per cent on time deposits therefore some



people would take a chance, and when they began to withdraw their deposits the little banks would close. A hundred and forty-two banks failed in towns of less than one thousand people. In towns of 2,500 and over, there were 128 which closed last year.

The Federal Reserve Board also discussed bank mergers. There seems to be a growing tendency towards getting together.

*By Mr. Hanson:*

Q. What is the policy of the Board with respect to mergers?—A. I do not think the Board has announced a policy. They are watching the situation closely. It has no control over mergers. Legislation by Congress last year has facilitated mergers.

Q. Are they opposed to it?—A. I do not know that they are. I know that at least one member of the Board is in favour of a more unified system of banks with branches. He is a strong believer in the Canadian system. I will not give his name, but he is outspoken in his views.

*By Mr. Woodsworth:*

Q. Would you say there was any period of credit difficulty in the United States comparable to the post-war period, or that the Federal reserve system did not substantially reduce the credit strain from which bank failures result?—A. Well, I think the credit strain in 1893 is comparable—I remember that—I do not remember 1857, as I was not here then—but 1893, I remember very well and that was a pretty strenuous year. We did not have as many banks in those days, of course. The population was not as great. You have to get a proper proportion on these things. Mere numbers do not convey the idea.

Q. Would the existence of a Federal reserve system not tend to ease the strain and thus make the tendency to bank failure less?—A. It does with member banks. I do not know that it has much effect on the non-member banks. A Federal Reserve Bank cannot do anything for a non-member bank. A Federal Reserve Bank can discount eligible paper and good paper for member banks only in its own district. It cannot do anything for a member bank in another district except indirectly, by rediscounting for a Federal Reserve Bank. Furthermore, a Federal Reserve Bank is not allowed, except by special permission of the Federal Reserve Board, which has rarely been given, to rediscount for a member bank eligible paper which bears the endorsement of a non-member bank, on the theory perhaps that the non-member is not a member of the club, and not entitled to the privileges of the club.

*By Hon. Mr. Stevens:*

Q. Mr. Chairman, I have prepared a number of questions I wanted to ask Mr. Harding, but his most excellent outline of the system I think, has answered a great many questions.—A. If you will let me interrupt for just one moment, I have just one more statement to make, and then I am through and will be ready for questions. I was talking of the tendency toward consolidations and mergers in the United States. There the Board has some very interesting figures: In 1915, there were 55; in 1916, 56; in 1917, 35; in 1918, 36; in 1919, 80; in 1920, 77; in 1921, 104; in 1922, 125; in 1923, 120; in 1924, 124; in 1925, 120; in 1926, 154; in 1927, there were 259.

*By Mr. Hanson:*

Q. Do they have to have any governmental sanction of any sort, or are they purely voluntary on the part of the banks?—A. In the case of a National bank and State bank merging, if they are going to take the National bank charter, the government has a look in. If it is the other way round, it has not.

Q. If State banks are merged?—A. Not if they are non-member banks.

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*By Hon. Mr. Stevens:*

Q. I was going to follow that question you have been discussing, Mr. Harding, regarding membership in the Federal Reserve Bank, as it relates to a State bank. I think you said a moment ago that there were—I have an extract from the Federal Reserve Bulletin here—something like 1,700 State banks that were members?—A. 1,600 or 1,700, I think.

Q. I want to get this clear, because I think it is important. The total number of State banks amount to between 18,000 and 20,000 roughly?—A. Yes.

Q. You may not be able to answer this question, but I would like you to if you can. Of this number of 18,000 or 20,000 State banks, have you any idea, or would, say, 10,000 be a correct or approximately correct number of State banks eligible for membership?—A. I think perhaps that would be rather excessive.

Q. Have you any idea roughly of what number they would be?—A. We cannot very well tell whether a State bank is eligible for membership, unless it applies and is examined.

Q. I quite appreciate that it would be difficult. Let me put it this way: A good many State banks that could qualify have not made application to join?—A. I am familiar with the situation in New England, and I will tell you why a good many eligible State banks there have not made application to join. I will confine myself to my own bailiwick, in order to give you a clearer idea. The mutual savings banks are a very large factor in banking in New England. They have no capital stock. They each have a Board of Trustees. They are big investment trusts. The law limits the investments they can make to certain classes of securities, real estate loans and so on; and after paying their expenses they pay a dividend to the depositors. In many cases they pay four and a half per cent. Hardly any of them pay less than four. I doubt whether a mutual savings bank could retain its deposits if it paid less than four per cent.

Mutual Savings banks have been in operation in New England a number of years, and have been highly successful. The total deposits of the Mutual Savings banks of New England, are about three hundred million dollars more than the total deposits of all the member banks in New England. Now, the member banks, both the National Banks and State banks have time deposits, and they have savings' deposits. Their savings' departments are modelled after the mutual savings' banks, in their procedure. They have a pass book, and they pay out no money except on presentation of the pass book; and they have a right to claim thirty days' grace if they want to on any payment although they do not exercise that, except in case of emergency, of course. Now, the laws of the various States in New England respecting reserves have been modified during the last ten years, so that now, as far as a State bank which is a member of the Federal reserve system is concerned, no matter what the State law regarding reserves is, all the member bank has to do is to comply with the Federal reserve requirements, and then it is exempted from complying with the laws of its own State with respect to reserves. The Federal Reserve Act does not distinguish between savings' accounts and other forms of time deposits. It merely requires a reserve of three per cent on all time deposits, and requires a reserve of ten per cent on demand deposits, in the case of the Boston banks, and seven per cent on demand deposits in the case of all banks outside of Boston; but in the case of all member banks, the law requires three per cent on time deposits, without distinguishing between savings' accounts and other time deposits. The savings' banks are not required to carry any specific cash reserves with anybody. The States supervise their investments, and that is sufficient. And, with the exception of the State of Vermont, no New England State requires any chartered bank, trust company, or State bank

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to carry any reserve on savings' deposits, in order to enable them to compete more successfully, you see, with the savings' banks. The State of Vermont requires a three per cent reserve; that is the only one that does; but Connecticut, Massachusetts, Rhode Island, Maine, and New Hampshire do not. Now, that I think is the reason why about 225 banks which would be very desirable member banks do not come in. That is also the reason why three trust companies which we have lost from membership in the last three years have withdrawn from the system. They have very friendly feelings for it, but they say it costs too much. They say, in other words, "as non-member banks, we do not have to carry this reserve on our savings, and it is too expensive."

Q. That is the Boston system?—A. Yes.

Q. That leads to a question that I was going to ask and while it may seem a repetition, I will put it in the form I have it here, to get it clear on the record; and that is this: that the Federal Reserve Bank demands from its member banks, as you have already stated, a deposit with them of say, seven to ten per cent of their demand deposits, and three per cent of their time deposits?—A. Yes.

Q. Now then, do the Federal Reserve Banks pay interest on those deposits?—A. I might say, in the case of Chicago and New York, the reserve on demand deposits is thirteen per cent. These two cities are classified as central Reserve cities. Banks in cities such as Boston and Philadelphia and about fifty others classified as Reserve cities, must carry a reserve on demand deposits of 10 per cent, and banks located in all other cities and towns must carry a 7 per cent reserve on demand deposits, but the reserve of 3 per cent on time deposits is uniform for all banks wherever located. The Federal Reserve banks pay no interest on deposits.

Q. These deposits are made by the member banks with the regional Federal Reserve Bank?—A. Yes.

Q. Does the regional Federal Reserve Bank pay any interest to the member banks for these deposits?—A. It does not.

Q. Is that a matter of dissatisfaction with the member banks?—A. Originally it was. In the New England district, there was some dissatisfaction, and we adopted the system some years ago of holding stockholders' meetings get the members together once a year, letting them conduct the meeting, and at the first meeting the question came up why the Federal bank did not pay interest on deposits. We threshed it out, and here is what we told them. We said, "in the first place we are a reserve bank, and our excess earnings will average only about five hundred thousand dollars a year; after we pay our dividends, we have about five hundred thousand dollars a year to carry to surplus." Now, if we paid two per cent interest on \$150,000,000 of deposits, that would be \$3,000,000 a year. It is clear that we cannot pay that \$3,000,000 a year, unless we go out and earn it. How can we earn it as a reserve bank? In other words, if we go out into active business, if we could induce Congress to amend the law so that we can go to your own towns and cities and offer to discount paper at four per cent, we can pay you the interest, but we would everlastingly play "heck" with your business; we would reduce your interest rates; we would put some of you out of business; everyone would want to do business with the Federal reserve bank. You cannot lend money at four per cent and pay taxes and interest on deposits. We do not pay taxes except on real estate. Do you want to lose a very substantial part of your earnings for the sake of putting the Federal Reserve Banks in position to pay you interest on an average of about five per cent of your deposits? That is about the figure, because the average between the reserve required on time and demand deposits is about five per cent of total deposits. And they voted unanimously that they did not want any interest on deposits, and we have not heard of that question since.

[Mr. W. P. G. Harding.]



Q. In other words, that emphasizes the point that you are a reserve bank, and not a competing institution?—A. In other words, we cannot be a reserve bank and an active competing bank at the same time. We have to be one or the other.

Q. I notice that the statement of the Reserve Bank—I get this on the record for the matter of convenience—shows under “liabilities” an item of member banks’ reserve account, \$2,362,000,000?—A. That is a combined statement, yes.

Q. That is the funds to which we are now referring?—A. Yes, for all reserve banks combined.

Q. Now, another question, Mr. Harding, regarding the resources. I do not know whether you can answer this or not, but as near as I can judge from checking up the statement, this is the figure that I arrived at; that the bank resources of banks which are members of the Federal Reserve system amount to about sixty per cent of the total bank resources of the United States. Would that be about correct? And about forty per cent are under control?—A. No, it is about seventy-five per cent.

Q. It is now about 75 per cent?—A. Yes. You see, the large banks are nearly all in, and although they are numerically in the majority, the other banks that are out are so much smaller that the banks which are members of the Federal Reserve system have about 75 per cent of the banking resources of the United States.

Q. Your estimate would be about seventy-five?—A. About 75, yes.

Q. Now, another question that you have already dealt with pretty completely. A statement was made by Mr. Phipps the other day in which he quoted an article or speech made by Mr. Mellon. I have the speech here in the “American Bankers’ Journal,” and by the way, it is a very interesting speech. There is one part of it which was quoted the other day, and which I will read to you and if you will be good enough to give us your opinion, I shall be glad.

This appears on page 637 of the American Bankers Association Journal of February, 1928, and is a report of Mr. Mellon’s address; anyway, it is an article by Mr. Mellon which was contributed I think.

The work which the Federal Reserve System is doing is along sound, constructive lines. But the greatest mistake would be to expect the impossible. It is not a panacea for all the financial and economic ills which may befall the country. Neither the Federal Reserve System nor any other system can control prices. The most that system can do is to influence to a limited extent, from time to time, the total volume of credit and its cost. While credit is one factor in influencing prices, it is neither the only factor nor the controlling one; and it would be asking the Federal Reserve System to perform the impossible if it is to be charged with the responsibility for controlling prices merely because it can exercise a limited control over the amount of credit available.

Then he adds farther on, making an appeal apparently to the public, for their co-operation and support:

It is left for us to make certain that the System shall not be endangered by loading it down with extraneous or impossible tasks.

That is all I will quote.

WITNESS: I agree with every word of it, and I want to say further, that in my opinion, Mr. Mellon is better qualified to express an opinion on banking and finance than any other man in the United States.

Q. That is a very satisfactory answer, as far as I am concerned, because I might modestly say that it coincides with my own view. You have already given us a very excellent explanation of your open market transactions and I will



merely ask one question to round my own questions out, and it is this; the Federal Reserve Bank in any of their open market purchases, purchases only paper that bears the endorsement of first, member banks, or institutions whose standing is beyond reproach?—A. Yes.

Q. In other words, it must have the endorsement of a very highly reputable financial concern?—A. Yes. You must bear in mind that this paper acquired by purchase by the Federal Reserve Bank is eligible as security for Federal Reserve notes, and if we are to issue Federal Reserve Bank notes on either 100 per cent gold or 40 per cent gold and 60 per cent paper, it is necessary that we have good solvent liquid paper back of those notes, otherwise we would get into all sorts of trouble. There has been one dominant idea in the organization of the Federal Reserve System. It was not designed to create in the country an institution that would put every other bank out of business. It was intended to aid and supplement the existing banking system, not to throttle it. It was to provide something that our banks could go to in times of stress, or, to quote the caption of the Act.

To provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States,—

to take care of their legitimate requirements and direct their policies along right lines, as far as possible, rather than to start a big system of competing banks, which, by reason of exemption from taxation would come in, and ability to issue circulating notes would soon have become dominant. The people of the United States, do not want a Central Government bank and will not stand for it. The nearest approach they were willing to make was the Federal Reserve system of regional banks owned by the banks themselves.

Q. Neither you nor the members of your Board have any desire to enter into competition?—A. No, not at all.

Q. One other question in regard to this statement, the item marked "other deposits \$17,000,000"; would that be deposits of State banks, not members?—A. Possibly to some extent, but I imagine that that relates more to deposits of foreign banks of issue. A non-member bank is allowed to carry deposits with the Federal Reserve Bank to off-set transit items; in other words, the Federal Reserve System is open for the collection of cheques from non-member banks, provided they make deposits to cover the amount of their cheques in transit, but very few of them have ever availed themselves of this privilege.

Q. That is a free collection?—A. A free collection.

Q. They do not avail themselves of it?—A. Not the non-member banks. Some of the smaller member banks have fought the par clearance system very bitterly. They do not like free collection of cheques, which deprives them of the exchange charges they formerly made.

Q. As a matter of fact, under the free collection system, there is not very much expansion in your business in that line, is there?—A. Well, speaking for the Boston bank, we handle from 250,000 to 400,000 cheques a day in that one bank.

Q. That represents a very large sum, but it is not actually credited until it is actually collected?—A. No. We give a deferred credit. We know exactly how long it is going to take. We have a wire transfer system, and as soon as we know a cheque has been paid, we give credit for it without waiting for returns by mail. The Federal Reserve banks settle balances with each other through the gold settlement fund.

Q. That is by wire direct from one district to another?—A. By wire direct.

Q. Such credits to member banks for instance, on a collection given to a member bank, on a bank in another district, while there is what you call a deferred credit given, it is only given where there is a deposit maintained by the client of the bank?—A. Yes.

Q. That is true, is it not?—A. Yes. Not only does the Federal Reserve Bank pay no interest to anybody on deposits, but member-banks have to make reports of their deposits from time to time, and we check up their reserve requirements very closely. The city banks report twice a week, and country banks, twice a month. If a bank which ought to carry \$100,000 for reserve carries only \$90,000 for a period, instead of allowing it interest on its \$90,000 we charge it interest on the \$10,000 it does not carry, as a penalty for deficient reserve.

*By Mr. Ladner:*

Q. I think this is important. I started the question, but will go over it again. We have in this country the Finance Act of 1914, which is a species of rediscount; in your opinion, Mr. Harding, would it follow from a banking point of view, that the discount rate there would vary and change approximately as that of the Federal Reserve System?—A. I really do not feel competent to answer that question. I should think if your Government has any leeway in the matter, that the Banking Board would base their interest charges upon general money market conditions.

Q. There is one other question. Sir Herbert Holt, whom you no doubt know, a prominent banker in this country, in his recent report of 12th January, 1928, stated:

In international banking circles the opinion is being inground that a world shortage of gold will be experienced unless effective international co-operation prevents the accumulation of unnecessarily large individual holdings by central banks. Should such a shortage develop, it must necessarily result in a gradual decline in price levels and resultant loss and unsettlement in business.

May I ask if your view concurs with that? or varies from it?—A. Well, in principle. There may be some modifications to consider, but in principle I think it is correct.

Q. Sir Herbert Holt continues:

Intelligent co-operation between the more important gold-holding countries can prevent any such difficulties arising, but this may involve changes in policy on the part of a number of countries not in the first rank in international finance. The gold holdings of Canada are accumulating and will reach still higher figures, as and when a larger volume of note circulation is made necessary by the greater volume of business arising from the growth of the country. Neither Great Britain, Germany, or other commercially important countries, except the United States, keep metallic reserves proportionately as large as those now held in Canada.

Do you know about that Mr. Harding, as to the proportionate reserves?—A. Well, that varies, of course, from time to time sometimes. Take Poland for instance; which is not regarded as a rich country; after they got their stabilization loan, I think the Bank of Poland had the largest percentage of gold reserve in Europe, and one of the largest in the world, but that percentage will be reduced as the proceeds of the loan are expended.

Q. Having in mind the close proximity of Canada to the United States and the exchange on the money markets, supposing in our gold reserves we had an amount which appeared never to have been used or necessary since 1914, in all our business and economic activities, as a banker, would you consider it sound, if that unused portion in the course of that time were used, let us say in the reduction of the National debt? In other words, if we have \$185,000,000—

The CHAIRMAN: Mr. Ladner, I do not want to interrupt the question but our time will be up soon. I am not going to call it 1 o'clock. We all want Mr. Woodsworth and Mr. Spencer to go on; it is grilling, I know.

[Mr. W. P. G. Harding.]



*By Mr. Ladner:*

Q. That is my last question, Mr. Harding.—A. I hardly feel qualified to answer that question. That is something your own financiers and bankers can determine better than an outsider can guess at it for you.

The CHAIRMAN: We will give just as long a time as Mr. Harding will stay with us.

Mr. WOODSWORTH: There are some others Mr. Chairman but this is something I would like to ask. I have only two or three questions to ask of Mr. Harding.

*By Mr. Woodsworth:*

Q. Mr. Harding, you have suggested that control of the Federal Reserve is not so much through discount rates as through open market operations. There are alterations in the discount rates, for what purpose?—A. To bring the rate in line with the market; in other words, we would not want to maintain a 4 per cent discount rate if we had a 6 per cent money market. We would raise the rate. It would be futile for us to do otherwise. The rates on a prime bankers' bill is the best guide as to what the market is.

Q. I notice an English publicist has said recently:

Up to last week it had kept the price of credit low, with a bank rate of  $3\frac{1}{2}$  per cent, and the volume of credit was expanding while prices remained stable.

That apparently would mean good conditions, because he went on to speak of stabilization and so on, and then proceeded:

What actually happened is fairly clear. The new credit was ample and cheap. But it did not go to purposes which would increase wages and make a mass demand for goods. It went to finance, speculative dealings in stocks and real estate. Perceiving this, but impotent to prevent it by any subtler action, the Federal Reserve Board raised its bank rate to 4 per cent, and proceeded at the same time to curtail the volume of credit.

—A. Let me say right here that the recent advance in the rate from  $3\frac{1}{2}$  to 4 per cent, so far as the New York Stock Market was concerned, caused a slight reaction for two or three days, but it had no lasting effect whatever. Note the prices of the more active stocks such as Radio and General Motors on the New York Stock Exchange to-day as compared with prices before the Bank rate was raised. The Hon. Mr. Davis, Secretary of Labour has been making a study of labour conditions in the United States; he has just estimated the number of unemployed at 1,870,000. He does not suggest that there is anything wrong with the Bank Act or the Federal Reserve System; he does not blame the Federal Reserve System for unemployment but he makes a suggestion which I think is eminently sound. If the Governments throughout the world would act upon this policy, they could iron out these variations in the demand for labour, just as the Federal Reserve System has been trying to iron out the variations in the money market. That is, in times of great industrial activity, when private capital is employing labour fully and there is a general demand for labour, let governmental activities be slowed down, and in times of depression when private concerns have few orders and there is nothing very much doing, then is the time for Governments to go ahead with building programs and internal improvements, giving employment to labour and getting more efficient work, thus ironing out these periods of extreme depression. This is a matter the Federal Reserve System has nothing to do with. It has no control over the labour situation in the United States.

[Mr. W. P. G. Harding.]

Q. It had nothing to do with the speculation in stocks at that time?—  
A. I do not think it did.

Q. Or any effect upon it?—A. I know the discount rate has little effect in the agricultural sections because farmers and merchants borrow from the member and non-member banks, and I never heard of current money rates in rural districts being as low as 4 or 5 per cent. I want to say another thing: We tried an experiment in 1915. The Federal Reserve Board issued a regulation in 1915 authorizing a special commodity rate. We wanted to test out what the Federal Reserve system could do in the way of promoting orderly marketing, by aiding producers to market their crops gradually and avoid the usual rush to market. We issued a regulation under which a Federal Reserve Bank could discount paper secured by warehouse or elevator receipts for grain and cotton or other agricultural staples, for ninety days at a three per cent rate, provided the borrowing bank would certify that it had lent the money in the first instance to the producer at not over six per cent. In this way, we gave the banks in the South and West an opportunity to lend a farmer cheap money to enable him to carry over part of his crop and market it gradually. The Federal Reserve Bank could advance the member bank money at three per cent if the member bank had lent money to the farmer at not more than six per cent. Very little use was made of this opportunity. The banks generally preferred to lend at their usual rates, and if rediscounts were needed to pay the standard rate, they seemed to be afraid that a lower level of interest rates would be established, if they should make loans at 6 per cent. After several months trial of the plan, the Board withdrew the regulation.

Q. Do I understand then that your system, the Federal Reserve system has not any effect in the direction of stabilizing the general price level?—  
A. I did not say it has no effect. It has whatever effect that a stabilization of the money market has, but I agree with Mr. Mellon's statement, that the cost of credit is only one factor, and not by any means the most important factor.

Q. You do not consider that there is a direct relationship between the price level and the value of the dollar?—A. Well, of course, there is a certain relationship between the purchasing power of the dollar, and the general price level.

Q. I am getting at an understanding of what you have said there, if I may; that if it does affect the stabilization of the money market, is not that another way of saying it does affect the price level?—A. To a limited extent. It is only one of a number of factors, and not the most important factor.

Q. You say in the United States there is a fear of central control in one central bank?—A. Yes.

Q. The regional bank system is designed to overcome such centralization, I am thinking in terms of Canada. Our banking system is centred in two cities in the east, in Montreal, and in Toronto. That is what I have in mind behind this question. Supposing there were a centralization in New York and Boston, or New York and Chicago, would that be considered satisfactory for the United States?—A. Banking in the United States is a highly competitive business. Boston is the largest city in New England, and the banks there have more deposits than any other city in New England. Although, as a result of mergers, there are now in Boston only about one-fourth the number of banks there were 30 years ago, there is keener competition between the banks in Boston than there is in any other city of which I have knowledge.

Q. Perhaps I have hardly made myself clear. If everything were concentrated in the eastern cities, or if you had no regional banks in the west, would that be considered satisfactory to the people in Kansas or California?—  
A. No. With this present population and resources they would of course



organize banks of their own. Is the fact that the banks in Canada are concentrated in Toronto and Montreal due to the law, or is it because there is no need for home-office banks in other sections?

Q. No, but it is at the present time confined in that way.—A. Is there no competition between your banks here in Canada?

Q. The headquarters of all the banks are located in two cities?—A. Well, I say, is there not competition between them? Do they compete in any way?

Q. Yes, but there is no competition from outside places. We have no regional system by which we have western areas?—A. From what I know of your situation in Canada, it would be absolutely impossible for you to have a regional system in Canada such as we have in the United States, because you have not the banks to take the Reserve Bank stock. If you started a regional system of banks, you would have to find some way of raising the capital. Would the Government own it, or would you invite private capital to come in? How would you work it out? I do not presume to advise you what to do in Canada, but I think I know enough about your situation to know that a Federal Reserve system, organized on the same basis as in the United States would be impossible in Canada.

Q. We are not suggesting that, of course, in any way, but I would like to ask one further question. You said that in 1907 a panic at that time would have been impossible under the present Federal Reserve system?—A. Yes.

Q. Would you say the Federal Reserve system would prevent any future panic?—A. No, it would prevent a currency panic. The Federal Reserve system cannot prevent wars, earthquakes or some unexpected cataclysm; but all that is claimed for the Federal Reserve system by its friends is that it can effectively prevent a pure currency panic such as the panic of 1907.

The CHAIRMAN: Mr. Spencer?

*By Mr. Spencer:*

Q. Mr. Chairman, the time being late, I will not trouble Mr. Harding with more than three short questions, if I may. One is, what is the attitude of the ordinary banks towards the open market operations of the Federal Reserve Board?—A. The ordinary bank?

Q. Yes?—A. Taking the banks by and large, I think they approve of the operations. I know of some individual cases where banks, possibly for selfish reasons, would prefer that the Federal Reserve Banks keep out of the market and let them control this business.

Q. Second, do the Federal Reserve Banks or the Federal Reserve Board attempt to regulate the general business or the price level in the United States?—A. The Federal Reserve Banks and the Federal Reserve Board all have their statistical departments. They study the situation very closely, but there are so many factors connected with general business in the United States, that I think it would be futile for them to attempt to regulate it. One thing that affected business very seriously in the United States last year was the flood in the Mississippi valley, and last fall the floods in Vermont affected business in New England; in Pennsylvania the coal strikes have affected business. I do not see what the Federal Reserve Banks can do about things of that kind.

Q. It has been rumoured that in 1920, or when the Federal Reserve Banks' reserve ratio was very low, the United States government—so it is rumoured—or the Federal Reserve Board suggested to Canada and Japan not to withdraw their gold which they had on deposit in the United States. Do you know if this was so?—A. I never heard of it before, and feel safe in saying that no such suggestion was made or considered.

[Mr. W. P. G. Harding.]

Q. Then a last question?—A. Just a minute. I will say that from September, 1917, until early in the year 1919, by executive order of the President of the United States, there was an embargo on gold shipments from the United States. Shipments could be made only by virtue of permits granted by the Federal Reserve Board, which had to take into consideration the public interest. If a shipment was not incompatible with the public interest, the Board could permit it. The President issued another proclamation early in 1919, removing the restrictions on gold exports. And, during 1919, the net loss of gold to the United States by reason of shipments going out after the removal of the embargo was about \$350,000,000. I never heard of any attempt by any one to restrict gold shipments after the embargo was lifted.

Q. A last question. Are Treasury certificates the only type of paper used in the Federal Reserve Bank open market operations?—A. Is what? I did not catch your question.

Q. Are Treasury certificates the only paper used in the Federal Reserve Banks' open market operations?—A. Oh, no. They buy bills of exchange in the open market. I intended to convey the idea that the Federal Reserve Banks stand ready to make purchases of prime bills of exchange in the regular course of business at all times; when there is a good demand for bills, other banks get them, while at times, when money tightens up the Federal Reserve Banks get the bulk of them. The Federal Reserve Banks stand back of the bill market; they will buy them when no one else wants them; but the Federal Reserve Banks do not go into the bill market for the purpose of stabilizing the money market, as they do when they buy or sell Treasury certificates. The Federal Reserve Banks do not do anything primarily for the purpose of making money. They could make a great deal of money if they ceased to function as reserve banks, and went into the general banking business. The question of making money does not figure in the management of the Federal Reserve Banks. Their dealings in bills, while undoubtedly exerting a stabilizing influence, are not for the primary purpose of stabilization as is the case with their purchases and sales of short-time government obligations.

*By Hon. Mr. Stevens:*

Q. There was one question I overlooked. I asked Mr. Pole, two years ago, this question; and I will just read it for the sake of brevity:

Q. Are you favourable to the scheme of a Government guarantee of deposits?—A. By no means. I must cite the experience of those States, of which there are several, which have undertaken to guarantee deposits, and which have been universally a failure. The State of Mississippi is an instance.

What is your opinion on that?—A. I agree absolutely.

*By Mr. Matthews:*

Q. I would just like to ask this: In your opinion, does the Canadian banking system adequately take care of the requirements of Canada?

Mr. SPENCER: May I have that question again? I did not hear.

*By Mr. Matthews:*

Q. I asked if in Mr. Harding's opinion, the Canadian banking system adequately takes care of the requirements?—A. I can only answer that from an American standpoint. I have never heard any criticism of the Canadian banking system in the United States. We have always regarded it as a system that, under your conditions, was adequate. I have here tables, showing advances to Canadian banks from 1914 to 1928 which have been made by your Treasury Board. These advances were to supplement the ordinary resources of your



chartered banks. They are somewhat analogous to the rediscounting by some Federal Reserve Banks for other Federal Reserve Banks. Our period of stringency in the Federal Reserve System was from the summer of 1919 to the middle of the year 1921. During this period we were engaged in very large Federal Reserve rediscounting operations for other Federal Reserve Banks. The largest amount of rediscounts at any one time that Federal Reserve Banks were carrying, for other Federal Reserve Banks was about \$360,000,000 in November, 1920. I see here, from your Treasury figures, that in 1918 the greatest amount outstanding of advances to banks was in November of that year, \$116,500,000; in November, 1919, \$112,957,000 and in November, 1920, \$123,689,000. Now, in November, 1920, the Federal Reserve Banks' rediscounts for each other were about \$360,000,000. Let us apply a proper proportion in order to compare the amount of relief rendered. I take it that in comparing the United States with Canada, except as to area, we should multiply your figures by 12. It appears therefore that in proportion to resources, the amounts advanced by your Treasury Board to Canadian banks were much larger, at the peak of the strain, than were the rediscounts of our Federal Reserve Banks for each other.

*By Mr. Ladner:*

Q. In other words, the operations with relation to the banking business of the country, were in excess, in proportion?—A. You advanced your banks \$123,689,000 in November, 1920, when the Federal Reserve banks were rediscounting about \$360,000,000 for each other. At this time the Federal Reserve Banks had outstanding in Federal reserve notes about \$3,400,000,000 and their loans and investments amounted to nearly \$3,000,000,000. The rediscount operations as between Federal Reserve Banks were necessary in order to enable each Federal Reserve Bank to maintain the minimum reserve required by law.

The CHAIRMAN: Mr. Harding, the Committee desire to express their appreciation of your appearing before them to-day.

The Committee adjourned until Thursday, March 29.

COMMITTEE ROOM 429,  
HOUSE OF COMMONS,  
WEDNESDAY, April 18, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: We will deal first this morning with the resolution on Banking. At the request of the Committee, we have with us Mr. Ross, Secretary of the Canadian Bankers' Association. I understand that you are now ready to hear Mr. Ross.

HENRY T. ROSS, Secretary of the Canadian Bankers' Association, called and sworn.

*By the Chairman:*

Q. How long have you been Secretary of the Bankers' Association, Mr. Ross?—A. Eleven years.

Q. Had you been a banker before that time?—A. I had been connected with the Finance Department for ten years.

Q. Would you prefer to answer questions, or to make your own statements?—A. Mr. Chairman, if I may say so, I have no statement to make, and I have not any idea of what is required. If any questions are to be asked, I shall be glad to answer them as far as I am able.

The CHAIRMAN: Then, gentlemen, you have an open field.

*By Mr. Spencer:*

Q. May I ask, what position you held in the Finance Department, Mr. Ross?—A. I was Assistant Deputy Minister for ten years.

Q. And you have been for 11 years Secretary of the Bankers' Association?—A. Yes.

Q. There is a question I would like to ask; I do not know whether you will be able to answer it, or whether we shall have to ask someone else. I have a letter from Saskatchewan asking this question: Is it a fact that it is the custom of certain banks to charge a dollar a month on an account, when the amount left in the account is less than \$500. I would ask you first of all, if that is customary?—A. I never heard of that being customary. If I mistake not, there is some provision in the Bank Act in connection with such a matter.

Q. I understand, and Mr. Ross will probably correct me if I am not right, that there is a clause in the Bank Act prohibiting any bank charging anything to a customer without his consent?—A. That must be a matter of contract.

*By Mr. Robinson:*

Q. I believe there is such a charge made by some banks in the United States?—A. Yes, I believe it is quite usual there.

The CHAIRMAN: Mr. Ladner, you have some questions?

[Mr. Henry T. Ross.]



*By Mr. Ladner:*

Q. In the operations under the Finance Act of 1914, do you know whether it is a practice for the banks to have what is called continuing borrowings?—A. Continuous borrowings?

Q. Yes?—A. I think each bank borrows according to its requirements, and the borrowings are cleared up from time to time. A bank usually arranges, some time early in the year, for its possible requirements. Any borrowing that is done has to be cleaned up within a year; that is the term, unless there is an extension. I think, so far as my observation goes—I have not got actual knowledge—the accounts are usually cleaned up frequently, because no bank is anxious to keep on paying interest any longer than serves the immediate purpose.

Q. Are you familiar with the method by which the rate of interest is fixed under the operations of the Finance Act?—A. That is a matter for the Treasury Board to determine. The Treasury Board determines the rate of interest, based probably, I would infer, upon the rate in New York; although the rate there changes more frequently than it changes here. There is a steadiness about the rate here.

*By Mr. Irvine:*

Q. Steadily high?—A. No, it is moderate.

*By Mr. Ladner:*

Q. We had evidence the other day from Mr. Hyndman, I think it was, that the rates had been changed by the Treasury Board three times since 1914?—A. Yes, it was five per cent for a very long period, and I think the first change—I have a recollection of that—the first change was brought about by the fact that money was cheaper in New York, and some of the banks intimated—I am speaking now from mere hearsay on my part—that we could more conveniently borrow in New York, than to borrow from the Finance Department, and the Government here would lose the interest, which was a gain—unless it was modified.

*By Mr. Donnelly:*

Q. On the first of November, 1927, it was lowered to four per cent, and on the first of September, 1927, to three and three-quarters. Why those two changes in one month?—A. You will have to ask the Minister for that. The matter originated wholly with the Minister.

Q. Don't you think it strange that there should be two reductions just at the time of a lot of speculation?—A. No, I do not think the speculation had anything to do with it.

Q. There was a demand for money at that time for speculative purposes?—A. I think the Minister was on the eve of asking the banks for a loan at four per cent, and he thought he could hardly charge them that much if he was going to get a loan for three years of forty odd millions, at four per cent; he would have to give them a margin. I do not know that. You would have to inquire from the Minister. I do not know the operation of his mind. It surely originated with him.

*By Mr. Ladner:*

Q. The rate of the Federal Reserve Bank in New York, or even of the Federal Reserve banks—we learned from Mr. Harding, that the rates of interest are quite uniform in the United States. That is, with the twelve regional banks; they have power to make a variation, but in practice they are uniform. Now, taking the North American continent as an economic unit, and they are interdependent, that is, the two nations; as a banker, do you not think that there

[Mr. Henry T. Ross.]

should be a closer relationship in the adjustment of rates of interest between the Federal Reserve banks and the Treasury Board than now exists?—A. If you will pardon me, I think Mr. Harding made it very clear that rates were not uniform; that in western areas, and where prime paper was not offered, the rates were materially higher, that there was a substantial variation and that it was not possible to secure uniformity for that very reason. And he gave figures, if I remember—I heard him here—to show that western rates might be substantially in excess, and if you examine the Federal Reserve Bulletin, you will find the rates there changing.

Q. Those are the rates on time bills?—A. Yes.

Q. But I am referring to the rates as between one Federal Reserve Bank and another, the Federal Reserve discount rates?—A. There have been variations.

Q. He mentioned an instance of one variation between Chicago and New York?—A. Yes. Recent.

Q. You recall that?—A. Yes.

Q. And he explained that the results of that were such that hereafter there would be no variation, that the Central Board in practice would see to it that the rates were uniform. I have his evidence here. I do not wish to take the time of the committee in looking it up, but I am pretty certain of my grounds, that there is a uniformity of rates so far as the different Federal Reserve Boards go?—A. That does not mean the uniformity of rates to the public, though.

Q. Oh, no. The value of the bills, and the prime bills and other securities will vary according to the security?—A. Yes.

Q. But, on a given prime bill the Federal Reserve discount rate is uniform so far as the different Federal Reserve banks go?—A. I am not so sure of that. I would like to see a copy of the Federal Reserve Bulletin, because the table of rates in the different regional districts, I know, shows variation; it may be that it is between borrowers and not between Federal Reserve banks. It may be as you say.

Q. Assuming that there is a uniform rate for the Federal Reserve banks in the States, do you think that in the practice of banking and financial operations as between the two countries, the rate in this country under the Finance Act would necessarily conform to the rate down there?—A. No, I think not. Not necessarily.

Q. Why not?—A. The conditions are very, very different here in this country. We have a sparse population; the transactions are relatively less, and machinery has to be set up which, in relation to the business done, costs a great deal more.

*By Mr. Irvine:*

Q. May I interject a question there? You just indicated that the Treasury Board here have altered the rates because of an alteration in New York?—A. No, I did not say that. I do not know what caused the Treasury Board to change.

Q. If I recall rightly, one of the Departmental officials here said that was the reason why they changed. I asked him. Now, if your statement be correct, that the conditions are so different, then we should see to it that the rates are not changed according to New York. But, they are being changed according to New York?—A. It would be very difficult to see to it, as you express it, in any effective way. I do not see how by legislation, or any conclusions reached here, the price of money could be settled.

[Mr. Henry T. Ross.]



*By Mr Ladner:*

Q. Now, Mr. Ross, have you an idea of the gold reserve in Canada approximately at the present time?—A. Perhaps \$97,000,000. I think I have a statement here, if I may get it.

Q. Yes, we would like to have it?—A. At the end of February, the gold held by the Department of Finance was \$93,973,000, of which a little over three millions was held against deposits in the Post Office savings bank, leaving a balance of \$90,966,000, held against issues of Dominion notes.

Q. That is, held against the issues of Dominion notes, did you say?—A. Yes.

Q. Is there any other gold which the Dominion Government holds?—A. Not as far as I am aware.

Q. What gold would the banks hold?—A. You will get that in the return.

Q. Have you got that?—A. I think I have a copy of a statement here. Sixty-six million, at the end of February, the same time.

Q. Do you know if any of the banks in England, outside the Bank of England hold gold?—A. I do not know, I am sure. The English banks do not publish detailed statements of their assets. They have a lump sum for gold and balances, in the Bank of England, and you cannot tell how much they have of gold.

Q. But, they have gold holdings, though?—A. I do not know, I am sure. I would expect they would have, but I have no knowledge.

Q. For the purpose of the record: under the Federal Reserve system, gold of course is lodged with the Federal Reserve banks, and member banks hold certificates?—A. I do not know that the banks are compelled to hand over all their gold to the Federal Reserve banks.

Q. But in practice they do?—A. Largely, yes.

Q. But in Canada, both the Government has the gold, as you put it, \$90,000,000, and the banks have \$66,000,000?—A. Yes.

Q. Now, what use do the banks make of that gold?—A. Just the same use as the Government makes of its gold. It is a reserve against outstanding obligations. It gives stability to the banking structure.

Q. Would it be better, so far as the banks and the public are concerned, if the banks' gold were placed with the Government, and the currency or note issue controlled in that way, as is the case in Great Britain and in the United States?—A. I do not think so. I think we have grown up and developed our own system to meet our own conditions, and just as Mr. Harding said, you cannot conform one system to another system simply because it works well in one country; you have to take the evolution in each country and not attempt any drastic changes unless for very sufficient reasons, and at the present time, I do not see the reasons why the change you suggest is desirable. In fact, I can see some reasons why it is not.

Q. I am not suggesting it; I am merely bringing out the data on which an opinion can be formed. In the securing by the banks of note issues from the Government, or rather under the Finance Act, in obtaining credit, the banks can, as I understand it, even place grain certificates, and are they allowed to put in Dominion and Provincial bonds?—A. Yes.

Q. Dominion bonds too?—A. Yes.

Q. And they can secure such notes from the Dominion Government as they require in their banking operations?—A. Yes.

Q. Then why could not the banks take the sixty-six million and buy bonds, and use the bonds?—A. That is an old story.

[Mr. Henry T. Ross.]

Q. I know, but I want to know what it is due to?—A. I say that it is necessary, to maintain the stability of a banking structure, that there be a reserve of gold.

Q. For what purpose?—A. For the purpose of satisfying the public. If the public thought there was no gold, and they have the right to have their notes paid in gold or Dominion notes—that is a question you might ask all over the world. Why does the United States hold gold? Why does England hold gold? Why does France buy gold?

Q. Now, you touch the crucial point. In the United States and Great Britain, where they have developed perhaps the biggest banking structures in the world, they do not do that as in this country; the gold is actually put in a central point?—A. But you are asking why the banks hold gold. You have assumed something.

Q. In another way, I am asking you why the banks' gold is not put in the Dominion Government?—A. You are assuming two things that are not correct. I understand that the banks in England do have some gold, and that the banks in the United States do have some gold.

Q. But is not that put with the Federal Reserve banks?—A. There is no legal obligation, as far as I understand.

Q. Mr. Harding made it clear that practically all the gold, except perhaps a few five-dollar pieces, is placed on deposit in the Federal Reserve banks?—A. That may be, as a matter of convenience.

Q. And on that the note issue is based?—A. Yes.

Q. Now, my point is, would it not be in the interests of the banks if the gold was put in the Dominion Government, or if their gold was used to purchase Government bonds, which is an obligation against the Dominion Government, and those bonds were used?—A. That is the point we started with. If they bought Dominion bonds with all their gold, what would become of the gold?

Q. It would go to the Dominion?—A. Would it go to the Dominion? And if so, what would the Dominion do with it?

Q. They would use it as a reserve for their note issue?—A. Well, the Government might not want to issue bonds, and the Government should not be under the obligation of issuing bonds for the purpose of furnishing currency in that way. That would be the American method of 1863.

Q. No, the Government is not under that obligation, unfortunately. They already have issued bonds to the extent of millions of dollars?—A. Then, they would have to go into the bond market to get the bonds, and the gold paid for them would be put back in the banks again.

Q. In the last analysis, the gold would find its way into the Government reserve, would it not?—A. I am not so sure of that. The Government is not making fresh issues of bonds. If the banks had to acquire Government bonds with their gold, they would have to go into the market and buy the bonds.

Q. Even on that assumption, my point is that the banks would put in these bonds for their note issues and they would have the revenue from the bonds?—A. I have said, that is an old story. You would eliminate the use of the gold?

Q. No, you would not. The Dominion Government would still have the essential requirements of gold for the note issues?—A. The Dominion Government would not have the gold.

Q. Not that particular gold, no. Perhaps you are right there?—A. They would not get that gold at all. The banks would have to buy the bonds on the market. The public who sold the bonds and got the gold would put it back in the banks. They would not give it to the Government. They would not give the Government their gold, so the Government would not have the gold.

(Mr. Henry T. Ross.)



Q. I am coming to that point. The Government would really have enough gold, as much as would be required in the practice of banking, to support a note issue. That is my contention. Now, I understand that the Dominion Government had about a hundred and eighty-five million dollars in gold. Are you sure your figures are correct?—A. They are what is here.

Q. I am informed that there is in the vaults of the Government approximately fifty or sixty millions in gold which has never been touched, or been required in the financial operations of the country since before the war?—A. I think your information is not correct.

Q. It comes from a very high authority, Mr. Ross. But you do not know about that?—A. I am absolutely certain it is not correct.

Q. My information is that there is about fifty million dollars which would not be required so far as the note issues are concerned, by the Dominion Government, and which could be used in the reduction of our national debt?—A. The Government from time to time buys the gold from the mines, and has it converted into mint bars. There may be fluctuating amounts, changing from time to time, but there is no such margin as you mention.

Q. There is no such margin?—A. Oh, no.

*By Mr. Ward:*

Q. May I ask a question there? Is there any control over the amount of gold that the Government requires? I mean, do they buy indiscriminately all the gold that is offered?—A. Practically so, I think. The Government gives Dominion notes, or gives a cheque on its balance in the Bank of Montreal. That is the way they pay for it. Of course, there is a limit. The Government balances are limited, and they cannot give cheques for the balance they do not have. That is the limit of their purchasing power just like any one buying anything else.

Q. Suppose, for example, that only half the gold that has been mined in the last ten years had been mined in that time; what would be the difference in the situation in respect of the exchequer as compared with to-day?—A. Not a particle of difference, because the Government, as soon as it gets the gold into mint bars, sends it to New York, and replenishes its account; it gets paid for it there, and it discharges obligations, or gets credit for it.

Mr. SPENCER: Therefore, they pay with that surplus gold.

The CHAIRMAN: Mr. Ladner was asking questions. I should like the members of the Committee, if they do not mind, to reserve their questions and not to disturb Mr. Ladner's line of thought, and the witness' line of thought.

*By Mr. Ladner:*

Q. Mr. Ross, assuming that there was a surplus supply of gold over and above what was normally required in the financial operations of the Government, as I have suggested of fifty million dollars; would it be feasible to use that in the reduction of the national debt, and the saving of interest? In the practice of banking, is it feasible, in case there is a shortage of gold, to buy treasury notes in New York?—A. Treasury notes? You mean Canadian Treasury notes, or the United States Government's?

Q. Treasury notes?—A. You mean obligations of the Dominion Government?

Q. Yes?—A. If the Government had, as you suggest, fifty million dollars in surplus gold, it would be the easiest thing in the world to reduce the national debt. They could go in and buy securities at the market price, and cancel them; do it over night.

[Mr. Henry T. Ross.]

Q. Supposing later on it was found on account of changing conditions in the country that they had to take care of the shortage, could they do it through the medium of treasury notes?—A. Do you mean if the Government were short of gold?

Q. Yes?—A. There is power under the Audit Act. If the Government were short of gold, that is to say, had not gold up to the legal requirements, the Government has power to borrow, and can do it in any fashion it likes, either by Treasury bills, or long term bills; sell them, and acquire credits with them, and convert these credits into gold.

Q. Making a balance between the gold supply and the notes?—A. Yes, and their obligations.

The CHAIRMAN: Mr. Ward, I interrupted you.

Mr. WARD: I would like to ask Mr. Ross a question. I think it was about two years ago that the Dominion Government purchased about sixty million dollars of gold?

WITNESS: I do not know, Mr. Ward, what the figures were. The Government has been purchasing.

*By Mr. Ward:*

Q. I think if I recall correctly, they did make a purchase of about sixty million dollars, and I understand they floated bonds, I presume, thirty-year bonds, to purchase this gold. My understanding is that they floated bonds to purchase the gold?—A. I do not think so.

Q. Whether they purchased gold or not, and regardless of how they issued the bonds, the fact is that we have a very large national debt, and it makes no difference; the cost to the Canadian people was just the same, and the usual bond, a thirty-year bond, I understand was issued. Now, that sixty millions of gold that was purchased had this effect, that whether it was paid for in cash or by bonds, we are still paying for it?—A. What has happened, Mr. Ward, is if the Government purchased that amount of gold, the only place they purchased it was from the mines; it was refined and stamped with the mint mark, and then it was shipped over to New York, you will find, and the Government got credit there for it, and thus extinguished its obligations in turn with the people from whom they bought it.

Q. Now, the popular theory that we are still paying for that gold and will continue to pay for it?—A. Is wrong.

Q. Is wrong, you say?—A. Absolutely.

Q. That is the point I wish to bring up?—A. I am quite sure it is wrong.

*By Mr. Donnelly:*

Q. Mr. Ross, under the Finance Act of 1903, I understand the Minister of Finance is allowed to make certain advances?—A. Yes.

Q. On what?—A. On Dominion Government securities, provincial securities, and on paper that represents standard commodities like wheat, and one or two other things.

Q. They are not allowed to make any advances for capital expenditure, nor for speculation?—A. No, not if they know it.

Q. Is there any way the bank can guarantee to the Treasury Board that they are not using this money for that purpose?—A. Yes, the Treasury Board has the power to inquire just as under the Federal Reserve Bank Act.

Q. How can you be guaranteed that if you hand me money, I am not going to use it for speculative purposes?—A. You are asking a question that is on everyone's tongue in the United States. It is in the Federal Reserve Act that money loaned under that system cannot be used for speculative purposes, and yet every one knows it is.

[Mr. Henry T. Ross.]



Q. And in the same way, I can use it for capital expenditure, after I get the money?—A. I think it is soon found out, because the obligation has got to be met. You might use it immediately for capital, but you have to meet the obligation in ninety days. If you do, that is an end of it. Of course, a concern might borrow immediately on the strength of Government bills, and lend it to clients; a bank might do that in the Dominion, lend to clients who were speculating. The bank has other money besides the money it gets from the Finance Act. A bank does not keep its money boxed up in water-tight compartments; it is all in one mass. I may say, though, that the banks, certainly the Canadian banks, and probably the American banks too, do not lend purposely for speculative purposes.

Q. But you cannot guarantee it?—A. No. So far as they know, it is not so used.

*By Mr. Woodsworth:*

Q. Mr. Chairman, I suppose on account of my having introduced this resolution, I have had a number of communications from various parts of the country with regard to it, and I should like to ask Mr. Ross to give a statement in regard to one or two matters to which my attention has been called. Here is a typical note from Winnipeg:

"There is no question that the West particularly is suffering on account of the predominating financial factors being in the East."

Or, here is a resolution passed since this Committee has been in session by the Canso Board of Trade, and the Canso Fishermen's Federation, under date of March, 19th, 1928:—

"Whereas credit is essential to modern industry and commerce;

"And whereas the control of credit at present is in the hands of a few banks with headquarters in Montreal and Toronto;

"And whereas this has been one of the main causes of the unsatisfactory conditions in all classes of business and industry in both the Maritime Provinces and Western Canada;

"Therefore resolved that we urge upon the Government such changes in the banking system of Canada as will ensure adequate credit facilities to all sections and to all classes of industry in Canada."

Does Mr. Ross consider that as the headquarters of the banks are, as a matter of fact, located in the two cities representing the central part of this country, there is not a very good basis for some complaint from outside sections which are much further removed, and are not perhaps able to bring so much pressure to bear on headquarters?—A. Dealing with the Canso resolution, I do not think the inference drawn from the resolution is justified. I am absolutely sure that if any fishing company is in a good solvent position it has not the slightest difficulty in getting money. In fact, the banks are competing, as never before, for a good class of business. You will notice in the resolution that not a word is said about furnishing security, or about the solvency of the concern asking for money. All they are asking for is money without reference to any underlying conditions; but if they are solvent concerns, in a liquid shape, they can get all the money they desire, or reasonably desire, for legitimate purposes. They can finance all the business that is solvent. I may say that the same thing is true in England. Within two months, the Chairman of one of the five great English banks, which control eighty per cent of the business of the country, said that although there were only five great banks, the competition between the banks was never so keen as it is at the present time, for good, legitimate business.

[Mr. Henry T. Ross.]

Q. The fact that the local branch bank manager has absolute authority over small loans and must not refer them to headquarters you think does not mean a discrimination against localities at a distance?—A. I do not think so. There might be an individual manager who has very bad judgment. It is impossible that all of the four thousand managers over the country are perfect in their judgment. One manager might turn down quite legitimate loans, but if his head office or his management knew he was turning down legitimate loans he would be reprimanded. Banks are anxious to make legitimate loans, legitimate loans that will be repaid in the ordinary course.

Q. You do not think the fact that the head office is so far away puts it out of touch with the local needs?—A. I do not think so. They have superintendents travelling about the areas, who are in constant touch with local conditions.

Q. Retail men very often complain to-day that they must be financed almost wholly by the wholesalers, that it is absolutely useless for them to go to the bank; have you any knowledge of that?—A. I have no knowledge, except a general statement I might make. If any retailer is in a liquid position he will not have the slightest difficulty in getting all the money he needs for his business; if he is hard up (to use a commonplace) and has a great many book debts that are bad, and cannot meet his obligations, and that is a regular thing, he will have difficulty with his banker.

Q. I would like to read a sentence or two, if I may, from a communication received recently from a retired judge, who has been in close touch with the business situation in Western Canada. He says:—

“You won’t get any business man to appear before the Committee, for the reason that they are not independent of the banks.”

I have asked a number of business men to appear before this Committee, who decline to appear, for that very reason. Do you think business men are so dependent upon the favour of the banks that they are afraid to give evidence?—A. No. I am quite sure there are lots of business men in this country who are independent of banks, and a banker would not undertake to say or suggest such a thing. An independent man, who is in a good position financially, if his banker complained, could go across the street and get all the accommodation he wanted. The people who are being carried along and nursed, by the banker, are the ones who are afraid to appear, because they have no case.

Q. You do not think the banks, being organized into one organization, might not make it easy for the Bankers’ Association you represent to put pressure upon these men?—A. No. As I said before, the competition was never keener, and if a bank put pressure upon a client which was not justified it is very easy for the client to go across the street and get money elsewhere. There is no question about that. The banks are anxious to get clients from one another.

Q. My friend the correspondent also goes on to point out that the banks give twice a year a full-page advertisement in the newspapers, from the biggest to the smallest village paper, and that is one reason why publicity is in favour of the bank—A. I am not aware of the fact that there is any such extensive advertising as that. The banks advertise freely, but I never remember a full-page advertisement. Perhaps when the Annual Reports are published, they might take a full page.

Q. I think so. I have seen those?—A. And those are probably paid for.

Q. I am giving you these things, not as my own ideas, but as the ideas of a number of men who cannot appear before the Committee, and I ask for your statement as to the complaints that are constantly being made. The contention has been that it is our branch bank system which has enabled a great many



industries to be established in different parts of the country. I wonder if I might read this to you:—

“Notice this fact, that whenever there is a German community, you will find industries going ahead. The reason is that the German withdraws his deposits from the banks and lends to his countrymen, to start industries. Why can't the banks do this?”

—A. I think that is very readily answered. That is quite legitimate. The men of German nationality who are willing to take the risk themselves are willing from time to time to accommodate their countrymen in the establishment of businesses, but it would be a bad thing for the banks. The banks must keep clear of that. They must be absolutely independent of any manufacturing businesses.

Q. Just along that same line, this suggestion is made:—

“Let me ask where would Oshawa be to-day? Where would Kitchener be to-day?”

“The argument, which I have often heard advanced by bankers and their on-Easy-Street-customers, is that no one is refused credit who offers good and safe security. Such I may admit is the fact, though I know of cases to the contrary, where successful industries would have been seriously crippled had not private individuals offered assistance, after banks had refused it.”

A. I think that is correct, for the reason that it is not a banker's function to take the hazards of the commencement of a manufacturing business. It must be established, and have its margin of surplus. A banker should know that it is against all principles of banking in any country. I think the German banks risk more than any other banks; certainly the English banks do not.

Q. Let me continue.

“Let me ask where would Oshawa be to-day? Where would Kitchener be to-day? Where would Tavistock be to-day had they depended upon the banks to get their start?”

He shows in detail how these three towns had their industries established by the people themselves?—A. That is perfectly legitimate and splendid, but certainly it is not the function of a banker to finance the commencement of new industries.

*By Mr. Jacobs:*

Q. The bank is merely a trustee?—A. Yes. A banker would have his funds all tied up, and could not move. He wants to keep his obligations liquid. If he put his money into a business concern, it might be there many years and possibly be lost.

*By Mr. Woodsworth:*

Q. Let me read this paragraph, since I do not know Eastern Ontario very well:—

“First take Oshawa. Not a dollar to the Cowans and the McMillans; men of industry, foresight and determination. These men realized, at the initial stage of their industries how hopeless it was to expect banks to help them. So it came about that, to use the deposits of the farmers, they started the Western Bank, which then lent the local Captains of Industry the deposits of the people in the surrounding country. Thus Oshawa got its start. Then, when all became clear sailing the chartered banks entered Oshawa and secured the cream. Second, take

[Mr. Henry T. Ross.]

Kitchener, not a dollar from the banks to start it on its successful career. Then from whence came financial help? It came from the Germans. Men of that nationality are intensely loyal and trustful, one to another, and this loyalty and trust is seldom misplaced. They drew out from the banks their own deposits, and lent them to German industrial enterprise. Then when all was safe going, the banks got the benefit of industrial life, which they refused to start.

"Third, take Tavistock. A short time ago two banks opened in that village. They did this, not, by confession, to do a regular banking business except so far as gathering the deposits from a rich and prosperous part of the farming community may be regarded as such. Now, Germans largely preponderate in and around Tavistock. The same loyalty and trust was shown by them to their compatriots as was evidenced at Kitchener among the same people. So they lent to him who wished to start an industry, and thus Tavistock got a start, which promises a successful industrial future.

"Now, if the banks instead of sending Canadian money to foreign parts, would follow the example of the German, our villages and towns would take on new life. Our sons and daughters would find employment at home and the "Quota" system would be as unnecessary as the fifth wheel to a coach."

A. I think the gentleman, while he writes a very excellent letter, has a wrong conception of the functions of a bank.

Q. He differs with you; you do not believe that the banks should do that? I would like you to develop that?—A. The banks are merely to finance legitimate, solvent industries, not to take the hazards of new businesses.

Q. What about that investment of the Bank of Montreal in Mexico, of some \$3,000,000, in Sir Edward Houston's time?—A. That was before my time. I have no knowledge of it.

Q. Or the various investments in sugar in the West Indies?—A. I have no knowledge of any substantial loss there.

Q. But there were investments there?—A. Possibly; I have no knowledge of that.

Q. There were losses in connection with the Home Bank, of course, as we all know?—A. Yes.

Q. I would like to ask a question or two to get your opinion with regard to a matter I spoke of when I introduced this motion, that is, the interlocking of directors. A friend of mine tried to visualize it, what it meant, on a chart, which may give some idea of it. I do not want to go into details. I do not claim, Mr. Ross, that this blue print I am putting up on the wall is absolutely accurate; in fact I have a great many companies that are not listed here. It is merely approximate. As you will note, the directors of the four banks are indicated here; the Bank of Montreal, with its directors, Sir Vincent Meredith and Sir Charles Gordon, and so on; the Bank of Nova Scotia, with its list of directors, the Bank of Commerce, and then the Royal Bank. There is placed here in a sort of general way the combined capitalization of the companies with which one particular director is connected, and on the sides are some of the companies and their subsidiaries with which the director is connected. I mentioned in the House the case of Sir Herbert Holt. There were only 130 mentioned, but I think there are nearly 150 which I have traced. One has to read the reports, to find these things out. Sir Herbert Holt is a director in some 150 other companies and corporations besides that of the Royal Bank. The criticism which I make here, and which I have heard hundreds of people in my part of the world make is this: the fact that Sir Herbert Holt is con-

[Mr. Henry T. Ross.]



nected with the Keewatin Power Company, the Dominion Bridge Company, the Players' Canadian Corporation, the Fort William Paper Company, and so on, as well as the Ogilvie Flour Mills—we will say, if the Ogilvie Power Mills Company were in competition with the Lake of the Woods Milling Company, or some other flour mill, Sir Herbert Holt would be almost superhuman if he would prefer to give credit to the Lake of the Woods Milling Company instead of to the Ogilvie Flour Mills Company. We are not crediting Sir Herbert Holt with being below the average in business morality; on the other hand, we do not think he is above the average in business morality, and the inevitable tendency would be that a man so connected would be interested in these various corporations. Several members of the Royal Bank, for example, have in fact taken hold of Besco, and inevitably the Royal Bank has a very deep interest in Besco. Now, there are several points I would like to ask about, and I have to have a background for my questions. The first is whether under these conditions there would not be a tendency for the bank director to be prejudiced in favour of those corporations with which he is directly or indirectly connected?—A. Is that question to me?

Q. Yes, Mr. Ross?—A. I can only make the reply made by one much more experienced than myself, the present President of the Association, Mr. A. E. Phipps, General Manager of the Imperial Bank, who has had an experience of over forty years in banking, and in a large way in the last fifteen years, we will say. He said he never knew of an instance in his experience of any Board of Directors withholding credit from a legitimate industry simply because a Company that some of its directors were interested in was a rival; he never knew of any such instance, and he said there would be no trouble in the world for a company in the position you mentioned there. There are two companies in the Royal; you mentioned Besco. The Royal has several directors on the Canada Steel Company. I do not know, but very likely if the Canada Steel Corporation desired to borrow money it borrows from the Royal, some of its money at least. I think its president is a Bank of Montreal man and certainly it has two or three directors of the Royal Bank. These corporations can get money anywhere. This interlocking directorate, so far as lending or the power to borrow money is concerned, is a theory only and has no practical effect, in the judgment of Mr. Phipps.

MR. IRVINE: Would your contention be, Mr. Woodsworth, that a banker having these other connections might cause credit to be let out when there was no really good basis for letting out the credit? Otherwise I cannot see that you have any point, because credit is not limited. If there was a limited amount of credit, and if these companies got it, there would not be any left. But there is still credit, because the banker is anxious to lend on approved securities; and unless they give credit to their favorites when there is no real basis for it, I do not think you made a point.

MR. WOODSWORTH: I do not think he will say that there is no limit to credit.

*By Mr. Irvine:*

Q. You would not say that the granting of credit to a subsidiary company in which a banker was interested would affect me?—A. I do not think so, because there is enough credit to meet all legitimate demands.

*By Mr. Spencer:*

Q. Let me interpose a question. Do you call credit in that case an equal amount with the deposits, or, to put it in another way, is credit limited to the amount of deposits on hand?—A. Substantially. It is limited, on the assets of the institution.

[Mr. Henry T. Ross.]

Q. Or the securities that are lodged with the institution?—A. Yes, anything that belongs to the institution itself.

Q. It is almost entirely clients securities?—A. Any banking institution can only extend credit in proportion to the amount of liquid assets it has to meet the obligations which arise out of the granting of that credit.

Q. But the local assets are made up out of the securities lodged with the bank to make up the amount?—A. A whole lot of things.

*By Mr. Woodsworth:*

Q. My second question is based upon a complaint I have received from a Toronto business firm, that a banker gets to know the inside of business affairs, in his position as a banker?—A. Yes.

Q. And on occasion he uses that inside knowledge in favour of his own particular institution?—A. I think that question was put to Mr. Phipps, and he said that so far as his own bank was concerned, if a member of the board was in the same business as a rival, without any law on the matter, it was usual for that man to refrain, or to stay out of the meeting when that matter was disposed of, when his rival's matter was disposed of, not as a matter of law, but that it would not be decent for him to be there, to learn of his rival's affairs or try to strangle his rival in business.

Q. It would be entirely a matter of honour, on his part?—A. Not on his part, but on the part of the bank. I think that is in the code, without any writing about it.

Q. Since banks are almost semi-public utilities in that regard, might it not be a good practice to have, as we have with regard to Government institutions, that if a man takes a position in a bank he might be called upon to resign his directorate in any other concern? You will remember that some years ago the question came up with regard to Cabinet Ministers?—A. I think it would be unfortunate if bankers who are directors of a number of other corporations and also of banks had to resign, because the very best business a bank has is the business that its directors through their influence bring to the bank.

Q. I presume they are appointed because of that?—A. They are appointed largely because of their influence, and if they severed their connections, it would be a great loss to the country. We would be deprived of men of vision and good judgment in business matters.

Q. Do you not think that it would be in the public interest if in certain businesses the amounts loaned should have a certain limit?—A. No, I think that would be completely reactionary. It would be against British tradition, which is the soundest banking tradition in the world, and we would be following the tradition of the United States, which has been struggling for fifty years to get away from it. They are shot to pieces with regulations of various kinds.

Q. There are some of us who have been suggesting that there should be a central bank, not necessarily a Federal Reserve Bank, which should be a bank of issue and rediscount. Is there any reason why the Dominion Government should not issue all our currency?—A. Yes, I think the reason has been already given. It would seriously affect pioneer banking in this country, banking in pioneer communities.

Q. That is because of the practice of these banks in pioneer communities using considerable in the way of bank notes?—A. Their own notes. If they had to keep real cash there on which they were paying interest, the pioneer community would be without a bank, no doubt.

[Mr. Henry T. Ross.]



Q. What is the franchise of note issues worth to the banks?—A. Well, that is a technical question. I can only repeat what Sir Edmund Walker, who was perhaps one of the most experienced bankers who ever appeared before this committee, said. He thought from a calculation made at some time in his own institution, somewhere between one and two per cent. It might vary greatly under different conditions, but one to two per cent on the issue.

Q. There is also one very small matter, but one which in certain sections creates a great deal of criticism; when a bank note is lost, the bank is in that sense the gainer?—A. No.

Q. It remains a charge against the bank, but as obviously it can never be presented, the bank in the meantime has the use of it?—A. The banks would very much prefer, and are extremely anxious to get rid of the liability. They do not regard it as an advantage to the bank.

Q. It is a book-keeping liability?—A. It is an actual liability. Their credit stands diminished to that extent; the bank's credit stands diminished to that extent.

Q. But they will never be required to pay, if a bank note is lost?—A. There are provisions at the present time under which, if anybody can prove that a note is destroyed, not lost—because we have heard of losses which turned up again—but is destroyed, there is machinery under which the person who was the owner at the time of the destruction can be indemnified.

Q. They have to have the numbers of the notes? In practice it would be very difficult to prove?—A. No. Within three months we have had the case of notes burned in wrecks to the extent of over \$100,000. That is unusual. It usually extends over a period of years. They have been written off by the banks, because it had been learned that they were actually burned; they were notes on the way back to the bank's head office for destruction. It so happened in that case but not in all cases.

Q. That was an exceptional case?—A. Not very. I should limit that and say that in one case notes for a substantial amount, some sixty or eighty thousand dollars, were in transit from the Central Office to a Branch Office, when the train was burned and the notes were destroyed. The bank was extremely anxious to get rid of the liability, and suitable arrangements were made under by-laws for ridding the bank of the liability.

Q. I intended to ask with regard to the relationship to the price level, but that has been covered, and I know your position. I do not think we would gain very much by it?

*By Hon. Mr. Stevens:*

Q. On this point, a lost bank note is a liability of the bank?—A. Yes.

Q. That is, the bank's own note I am talking of?—A. Yes.

Q. When that note comes back to the bank, it ceases to be a liability?—A. Yes.

Q. If, therefore, 10 per cent of your notes were lost or destroyed, it would be a fixed liability against the bank?—A. Yes.

Q. Just the same as if the notes were in current use?—A. Just the same.

Q. And until they are obliterated by some process, they remain a liability?—A. That is correct.

*By the Chairman:*

Q. Might not the government some day confiscate them?—A. It has never been determined how much is lost or destroyed.

Q. They might take them away from the banks?—A. There is no way of determining how much has been lost or destroyed; the bank does not know.

[Mr. Henry T. Ross.]

*By Hon. Mr. Stevens:*

Q. Has any estimate been made?—A. I have never heard of any.

*By Mr. Donnelly:*

Q. On private loans in different parts of the Dominion are there variations in the rate of interest?—A. I am aware of that. I think Mr. Harding gave an admirable statement with regard to variations in rates, depending upon the character of the paper that is offered. While rates for what he called prime paper might be 4 per cent, rates somewhere in the United States to an individual whose paper was not known might be 8 per cent. There is certainly no convention between the banks as to what rates shall be charged the borrowers in the different provinces, so far as I am aware.

*By Mr. Robinson:*

Q. Mr. Chairman, I would like to ask Mr. Ross a question. He spoke about notes returned for cancellation, to the Canadian banks. Is there any statute, rule, or regulation as to when a note should be recalled on account of its worn condition?—A. No, although I may say notes are recalled at very much shorter intervals. That is the life of a note has been shortened very much in the last fifteen years. The practice has gradually improved, and the life of a note is shortened; both Dominion and bank notes.

Q. Some of the bills that I have seen looked as if they had been carried in some one's shoe. They were dirty on one side. In my travels through the United States, which have been rather extended, I always got clean bills.—A. Probably in your travels you were in the large centres, in the hotels, and the hotels make a point of getting new notes to hand out.

Q. Say, in Detroit, if you go to any bank, you will get clean notes. I know in one of the banks in Walkerville, a while ago, the teller thought the bills were not fit for circulation, and he turned them back to the Government, that is one and two dollar bills, and they sent them back, and said "They have not been used enough."

Hon. Mr. STEVENS: There is something in that. I was never so annoyed in my life as I was coming east this last trip, across the continent; with the filthy condition of the one and two dollar bills I was forced to take. They were not fit for a human being to handle. I am not saying that that is the fault of the banks, but I do say it is the fact, and an effort should be made to prevent it.

*By Hon. Mr. Chaplin:*

Q. I would like to ask Mr. Ross in reference to bank notes; is it not the fact that every bank in the country brings back its issue once a year, that the whole issue is new every year?—A. Well, I am not just sure, Mr. Chaplin, of the length of the life of notes. The life has been shortened materially, but it is not possible to recall all the notes; they get around the country, and there is no possibility of getting them all in.

Q. In other words, every bank in the country burns up their whole capital every year?—A. I have not any tabulation, but I think that is substantially correct, as to the note issues.

Hon. Mr. STEVENS: I was talking of Dominion notes.

*By Mr. Donnelly:*

Q. At the Banking Conference in 1922, was it not the unanimous opinion that there should be one central bank of issue in any country?—A. I did not get that. What conference, was it?

Q. The Genoa Conference?—A. I think I remember something of that kind.

[Mr. Henry T. Ross.]



Q. We have no central bank of issue here in Canada?—A. We have in effect. The Dominion Government notes are, after all, the legal tender currency of this country. The bank notes are very subsidiary. They are not legal tender, and the banks settle their obligations between themselves, not in their own notes, but in Dominion Government notes. The Dominion Government's currency is the over-lying currency of this country, and in that sense, coupled with the Finance Act, under which Dominion notes are handed out when the banks borrow from the Government, we have a central issue.

*By Mr. Spencer:*

Q. Could you inform the Committee, Mr. Ross, what percentage of the trade of Canada, that is the internal trade, is carried on through the medium of notes, either Government or private bank notes?—A. I have not any figures to show that.

Q. You will remember, I think, that in 1923, when the late Sir Edmund Walker was giving his evidence, that he thought it was four per cent?—A. I would be helpless to hazard an opinion, and if Sir Edmund Walker made such a statement, I would bow to it.

Q. He was a pretty good judge of that?—A. Yes.

Q. The balance would be carried on under our very up-to-date system of cheques?—A. Yes.

Q. Therefore, we should necessarily, on a matter of banking, pay particular attention to the control of cheques?—A. Well, of course, the value of a cheque depends on the man whose name is at the bottom of it.

Q. It seems to me that all this talk we have had on banking, and money matters, has laid too much stress on the subject of bank notes, when it is cheques that really do most of the business. Now, you will admit, or I think you will not contradict this statement, that there is something (credit withdrawable by cheque) that can be produced by banks as long as they have collateral?—A. As long as they have assets.

Q. They do not have to have deposits that they can lend?—A. They must have sufficient liquid assets to meet their obligations as they mature.

Q. Liquid assets may be partly the securities of their clients to whom they have made loans?—A. That may be. The assets of a bank are a very complex affair.

Q. We have reports from men like Professor Adam Shortt, of Canada, and Mr. McKenna, of the Midland Bank of England; they make the statement.

Hon. Mr. STEVENS: I could not hear the statement. I shall be obliged if Mr. Spencer will repeat his question.

Mr. SPENCER: I am sorry if I have not spoken loud enough, but there is considerable conversation in the room. I was saying that talking of this matter of banking, and monetary matters, we have laid far too much stress on the matter of note issues, when the note issues only do about four per cent of the business of this country.

Hon. Mr. STEVENS: That is the statement. I was trying to get the question.

Mr. SPENCER: As we only do about four per cent of the business of Canada by bank notes, therefore, it is of importance that we should give due consideration to the other medium that we use to transact business, that is, cheques.

Hon. Mr. STEVENS: Very good, but still I do not know what the question is.

*By Mr. Spencer:*

Q. I wanted Mr. Ross' admission of that, but I think he agrees with it. Do you admit that?—A. Which? That we might give more attention to the question of cheques?

Q. Yes?—A. I do not know, I am sure.

Q. To the creation of credits withdrawable by cheques.

[Mr. Henry T. Ross.]

MR. IRVINE: They give so much attention to these cheques that they will not take one of mine.

WITNESS: I cannot say how a bank might regard Mr. Irvine's cheque, but mine might not be very highly regarded. I may say that a bank regards generally, among its items of assets, cheques on other banks. They regard that as a good asset because it is realizable the next day. In ninety-nine and a decimal percentage of cases, very few cheques come back that are not redeemed. That works so smoothly, that I do not think it need occasion any concern.

*By Mr. Spencer:*

Q. The point I want to get at is this; and it is a very important one: that the development of industry in the country is not limited by the amount of savings' deposits that can be loaned?—A. Everything depends upon what position the banks' assets are in.

Q. Can you answer my question definitely?—A. No, I cannot make a definite answer. One institution is in a very liquid position; it may have the same amount of deposits as another. It is in a very liquid position, and it is in a position therefore, to make grants of credit. Another institution may have its assets so tied up, to use an expression, that it cannot grant credit. The Home Bank, for instance, could not grant credit.

Q. Is the development of trade limited to the lending of deposits?—A. These deposits have gone through a dozen processes since they were deposited, and they are in some other form altogether from what they were at first, and it depends on the character of the change as to what the immediate position is.

Q. The point is, is trade limited to the lending of deposits?—A. I do not think I can give a categorical answer to that, because deposits do not remain in the bank in the same position as when they were made. They are changed over night.

Q. It is difficult to get an answer to my question, but an hon. member said that the money the bank lends is not its own?—A. If a bank has so much deposits, and if it is carefully administered, and is in a good position, it can certainly extend credit.

*By Mr. Irvine:*

Q. May I ask a question? I was going to ask, in the case of a bank that has apparently come to the limit of its credit, would it affect its credit adversely if I solicited a loan from it on very excellent security. It seems to me that if my security were good, it would not impair the position of the bank at all, and I do not see why it could not permit the issue of a cheque on that?—A. I am not a banker, and this is only my opinion, that if an institution is very much extended, and a good concern like the one you mention, came to the bank and wanted a line of credit for a large amount, the security being absolute, yet that institution cannot extend credit to you.

Q. Would it not have to be in a bankrupt condition, and afraid of being called upon for its deposits?—A. Yes, it would be in that position, that it would be afraid all the time and could not move along in a legitimate way.

Q. Your hypothesis there is that the banking institution is not solvent; but taking the institution as solvent, the credit is not limited to the actual amount of deposits in the safe of the bank?—A. A bank can become over-loaned, just as any individual can become.

Q. So far as its liquid assets are concerned?—A. Yes, it may not be able to take on new obligations. I think at the present time, the banks are anxious for loans; they have a surplus of assets ready for loaning, but times may change, there may come hard times.

Q. They will come unfortunately.

[Mr. Henry T. Ross.]



*By Mr. Donnelly:*

Q. Do the eleven Canadian banks control or regulate the credit policy of the Dominion?—A. That is a very general question. As to the credit policy there is no concerted action between the banks with regard to the credit to be extended.

Q. Do you think someone ought to control the whole credit system of the banks?—A. I do not think it is possible for any individual to do that.

Q. Would you say that it is better that it should not be controlled at all?—A. I think everything would depend on the industry itself, whether it is entitled to credit or not. An industry and its banker can determine that, assuming the bank to be in a good condition, as to whether the industry is entitled to credit, and there should not be an outside power saying this industry should not have credit.

Q. Is there any regulation on the subject of credit existing in Canada?—A. I do not think so. I never heard of any.

Q. Do you not think our Treasury Board might in some way, by changing the regulations from time to time, control the credit?—A. They might, yes. They might have a depressing effect, but, as Mr. Harding pointed out the other day, the mere raising of a rate sometimes does not influence speculation. He said there was a four million share day right after the rate went up in New York.

Q. When we are borrowing or getting money from the Treasury Board, or notes from the Treasury Board, and the Treasury Board believes it is used for speculation, do you not think they could control credit by raising the rate?—A. I think they could for some months, yes. I think if the Treasury Board raised the rate to a point where it was unprofitable, and the banks could not lend at a profit, it would have an effect.

Q. Do you not think then it is possible for the Treasury Board to control credit in the same way as a Federal Reserve bank?—A. You know what Mr. Harding and Mr. Mellon said about regulating credit.

Q. I mean to a certain extent, influence if not control it?—A. Yes, it is one factor, but not the controlling factor.

Q. Our Treasury Board is not in any way exercising its influence in that respect?—A. I am not so sure of that.

Q. Apparently not, judging by the way they have changed the rate of interest?—A. I am not so sure that they might not say to a particular bank, or I am not so sure that if a bank was not regarded as in an excellent position, the Treasury might not say, "we do not feel like making advances to you." I think that is quite possible.

Q. The only changes they have made in their rate of interest, were to cut it down?—A. Yes, but they might refuse to lend at all. It is perfectly optional whether they shall lend or not; not only change the rate, but they might refuse. That would be an effective way, more effective than the rate.

*By Mr. Spencer:*

Q. Following up that line, Mr. Ross, in the cross-examination of Mr. Phipps the other day, he did not like to accept for the Bankers' Association the responsibility for inflation or deflation. He threw that responsibility largely on the wholesalers and retailers. He then went on to say that the Treasury Board, under the Finance Act, in issuing notes against securities of the banks, could regulate to a certain extent, by increasing or decreasing the interest rate. I think you remember that?—A. Yes.

Q. Now, in that particular case, his bank, the Imperial Bank, I understand had not borrowed through the Treasury Board. If that is so, there is

[Mr. Henry T. Ross.]

no control through the Treasury Board on the Imperial Bank, or any other bank in such a position?—A. I do not know.

Q. In that case, it would be entirely up to the bank as far as they were concerned, to inflate or deflate under their control of credit. Is not that so?—A. The banks' volume of credit depends upon its own immediate resources.

Q. That is just the point where you and I do not meet. I cannot get an answer to my question on that point. I claim, and in fact, I have very good authorities for it, that it is largely in the hands of the banks as far as they have securities to issue credit on and that the savings' deposits, or current deposits have little connection. Under the Finance Act, they are given Dominion notes, or legals?—A. Yes.

Q. And these legals are used for correcting balances between the banks?—A. They are the real money of the country.

Q. Now, the Imperial Bank has never used the Finance Act, it has never come to borrow through the Treasury Board?—A. The Imperial Bank has relatively a large amount of these legals, always has.

Q. Transferred through its exchanges?—A. Yes, they take them all the time, and some of these notes have come from borrowings under the Finance Act. The Dominion notes received through the Finance Act are only a portion of the Dominion notes that are held by the banks. You must remember that of that 97 millions of gold, the banks have received 97 millions of Dominion notes for that.

Q. Will you just explain that again?—A. That 97 millions of gold we spoke of the Finance Minister having, or 90 odd millions, the banks have received from the Dominion Government these large legals in return for that gold, and so, the large legals the Imperial Bank has, principally originating on gold in exchange for legals, are exchanged with the other banks every day. When the Imperial Bank has a balance in the clearing house, in its favour, the other banks have to pay it in Dominion notes, within an hour.

Q. I understand that, that the Treasury Board is made up of so many Ministers of the Crown, and that, under the Bank Act, as securities are lodged with the Treasury Board, if they want to put a value on those, they can call in bankers in consultation?—A. Yes.

Q. In that case, has a banker ever been called in who has an interest in the Securities?—A. No.

Q. Would the bankers, by any chance, have anything to say, or would their opinion be asked with regard to increasing or decreasing the interest rate?—A. I do not think they have been consulted. They may have made representations, or said something about it, but, the Treasury Board has acted on its own initiative.

Q. With regard to the big legals, or notes that are given to the banks against securities, the banks can place these in the Central Gold Reserve, can they not?—A. Yes.

Q. In lieu of gold?—A. Yes.

Q. So that there is a good deal more paper in the Central Gold Reserve than gold at the present time? Now, the banker that had a good deal to do with forming the Central Gold Reserve a number of years ago was the general manager of the Bank of Nova Scotia?—A. Your information is not correct.

Q. I had the information from him?—A. I happen to know about that too.

Q. Was it the intention of whoever was behind that movement, to have so much paper in the gold reserve?—A. You refer to a former general manager?

Q. A former general manager, yes?—A. With all respect to Mr. McLeod's memory, he was not concerned or consulted at the time it was done.

Q. Did he not take the stand that that should be a real gold reserve?—A. He may have advocated it, but he had nothing to do with the initiation of the policy.

[Mr. Henry T. Ross.]



Q. One or two other questions. You made the statement that if the banks did not have the right of note issue, service to outlying districts could not be given?—A. It would be limited.

Q. Now, I understand that it is permissible, under the Bank Act, for branch banks to have quantities of their own notes, which are not counted as anything but paper until passed over the counter?—A. Yes.

Q. I think that is a very good idea. Now, why could not the same thing happen if we had simply a Government issue, that the bankers could be given a quantity of Government paper, which would not be charged against them until it went over the counter?—A. That is impossible of operation, because the bank is settling its own obligations every day, and if they had these obligations, they would have two classes, one that they were obligated for, and one that they were not. It would be an impossible thing, absolutely impossible.

Q. But it is done in other countries?—A. I do not know where.

Q. Is it not done in England?—A. Does the Bank of England hand notes to the banks, and they do not pay for them? That would be news to me.

Q. No, the Bank of England deals with every branch?—A. Yes, but they have to pay for them before they get them.

Q. Is there any reason why such an arrangement could not be made?—A. There is no such thing in England as what you suggest here for Canada.

Q. Can you give me a reason why it could not be done?—A. It is impossible of performance.

Q. At one of our meetings, some weeks ago, there was a conversation on with regard to the quantity of gold held in this country, and the amount used; and the statement was made that the main use of gold to-day was in adjusting trade balances. No one carries gold about in his pocket; it is not wanted, it is not convenient. The statement was made that the main use of gold was to adjust trade balances?—A. No, to adjust trade balances in this sense, that gold represents these large notes that the banks have, and these notes are the counters used in adjusting trade balances.

Q. Bank balances?—A. Yes.

Q. I did not mean that? I mean balances of the State?—A. International trade balances?

Q. Yes. It was asked in this Committee how much gold had been transferred at different times, and how much each time between this country and the States.—A. I do not think we have had that information.

The CHAIRMAN: Did that go in Mr. Tompkins?

MR. TOMPKINS: I do not think it has been handed in yet. Mr. Hyndman is working on it. (*See exhibits Nos. 2 and 3—pages 114, 117.*)

MR. SPENCER: That will be very useful.

WITNESS: That is the chief practical function of gold, to adjust international balances.

*By Mr. Spencer:*

Q. That use of gold is largely psychological, is it not?—A. You may call it psychological.

Hon. MR. STEVENS: Are we interested in psychology, at present?

*By Mr. Spencer:*

Q. We all know perfectly well that if they could not get gold, the Government would stand behind the financial institutions, and time would be given?—A. The Government has to stand behind its own issues.

Q. And behind the financial institutions too?—A. Not necessarily.

Q. Did they not do so in 1914?—A. No, there were certain changes made. They did not stand behind the banks.

Q. They enabled the banks to pay their debts in their own notes?—A. To a limited extent.

Q. They did not have to meet them in gold?—A. To a limited extent. The banks could not over-issue.

Q. I accept that. That is perfectly all right. Therefore it is largely psychological, and when the public generally recognize that fact, then we can talk very plainly about these things.

Sir GEORGE PERLEY: I suggest that Mr. Spencer ask questions. He is making a statement.

Mr. SPENCER: That is all I wish to ask.

Mr. IRVINE: Is this the last witness, Mr. Chairman?

The CHAIRMAN: Unless the Committee desires some one else.

Mr. IRVINE: I want to ask one question, and before I ask it, I want to say something. I think our investigation is pretty largely a fiasco in the sense that we have not made progress in getting information beyond the actual data which we already knew about the technique of banking in Canada. I do not think anyone is questioning the technique of the banking in Canada. Certainly, I am not. And while it may be improved, yet I think every one agrees that it is a very excellent system. I certainly am not opposing the branch bank system in any questions I ask, nor would I like to see it departed from. I think our questions in this investigation have been off the point, and I want to go a little deeper. First of all, I want to say that my interest arises in seeing that we shall be sure that at all times there will be sufficient credit available by the different institutions handling it, to carry on any legitimate industry in the country; and secondly, that there should be such control of that issue that we shall be ultimately prevented from the swing from boom to slump, known as inflation and deflation. Now, I want to ask the present witness whether he is absolutely convinced that it is useless to make inquiries into the possibility of controlling credit in that respect? I am not suggesting that the control of credit is the only factor involved in that, but I think he will grant that it is one of the most important factors, and to the extent that it is a factor, does he not think that a careful study of that situation by the Bankers' Association, and by any other group, or institution that he thinks should be interested—does he think that it is impossible to find at least a partial solution of that question?

WITNESS: Answering Mr. Irvine's question, I would say it is certainly a very desirable thing if crises, or if slumps could be prevented, and if prices could be kept on an even keel. I perfectly agree with that. But I fall back on what the great American bankers, Mr. Mellon and Mr. Harding (who was here), think. They do not think that through banking operations there can be a control of prices.

*By Mr. Irvine:*

Q. Do you not think they are influenced to a certain extent, that that is one most important factor?—A. It might to a certain extent; but Mr. Mellon states that it is not the most important factor. Mr. McKenna has been cited here several times. Mr. McKenna based his statements on the operation of the Federal Reserve Boards, and drew certain deductions. It is a very singular thing that the men responsible for the operation of the Federal Reserve Board take the opposite position to Mr. McKenna; the men who know the operation of it do not agree with Mr. McKenna.

*By Mr. Spencer:*

Q. My reference to Mr. McKenna was not in that relation at all, but to what he said about banking in general.—A. I am speaking of his recent speech.

[Mr. Henry T. Ross.]



*By Mr. Donnelly:*

Q. We have not had any evidence from the Treasury Board as to whether they have used their influence or not to control credit. Do you not think we should have some person here from the Treasury Board who could say whether they had used their influence or not?—A. It is possible that the Treasury Board may have. You cannot get any farther than that.

Q. We do not know whether they have ever used it at all?—A. I think that with the institutions in existence it has happened.

Mr. IRVINE: Does Mr. Ross think that there is a very decided relationship between the amount of money in circulation of any kind, I do not mean in currency, but anything that is used for money, and the amount of goods on the market at the present time, and the price of goods. It is a more or less technical question, it is a question of the relation of credit to goods?

WITNESS: I would hesitate offhand to express an opinion as to that.

Hon. Mr. STEVENS: Better refer it to the Research Council.

Mr. IRVINE: We might refer it to the Research Council. I do not expect Mr. Ross or any other banker to stand up and say it is this or that, but we do expect that the problem will be faced by those who have charge of the finances of the country, and that they will promise us to make a thorough investigation of it and report say five years from now either one way or the other.

Witness retired.

The Committee adjourned until Wednesday, April 25th. \

## EXHIBIT No. 2

(Submitted by Mr. G. W. Hyndman, Assistant Deputy Minister of Finance, Ottawa, Ont.)

## EXPORTS OF GOLD FROM CANADA, 1917 TO 1928

Years ended March 31	Gold-bearing quartz, dust, nuggets and bullion obtained direct from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	Foreign	Canadian	Foreign
1916-17	\$	\$	\$	\$	\$	\$
April.....	803,638			5,028		
May.....	1,174,079		1,057	75,619		
June.....	1,511,522			27,083,441		10,658,153
July.....	1,863,527			14,120,458		51,857,203
August.....	1,986,710			13,865		54,046,918
September.....	1,694,973			6,805		32,190,481
October.....	2,062,403		14,600	4,884,456		
November.....	1,319,416		14,600	6,125		
December.....	2,523,456			30,120		
January.....	1,708,251			16,120		
February.....	1,253,424			10,030		
March.....	1,769,627			99,430		
Total.....	19,671,026		30,257	46,351,497		148,752,755
1917-18						
April.....	1,029,467			8,550		
May.....	1,168,777		275	298,984		
June.....	800,193			40,886		
July.....	1,156,760			49,025		
August.....	1,769,074		290	793,713		
September.....	1,713,572		100	93,027		
October.....	1,607,984		9,733	126,191		
November.....	1,319,154			20,638		
December.....	632,768			45,575		
January.....	466,449		29,210	55,655		
February.....	1,223,276			264,366		
March.....	801,226		3,000	38,269		
Total.....	13,688,700		42,608	1,834,879		
1918-19						
April.....	924,981					
May.....	836,474					
June.....	1,395,445					
July.....	1,226,983					
August.....	865,931					
September.....	804,779					
October.....	410,403					
November.....	771,415					
December.....	313,451					
January.....	712,549					
February.....	483,561					
March.....	456,061					
Total.....	9,202,033		(a)	(a)	(a)	(a)
1919-20						
April.....	187,460					
May.....	324,809					
June.....	511,227					
July.....	747,361					
August.....	345,522	5		131,146		
September.....	477,546	1,309		220,382		
October.....	270,721			144,660		
November.....	230,967			300,831		
December.....	289,339			34,825		
January.....	1,418,322					
February.....	756,109					
March.....	414,951					
Total.....	5,974,334	1,314		831,844		



## EXPORTS OF GOLD FROM CANADA, 1917 TO 1928—Continued

Years ended March 31	Gold-bearing quartz, dust, nuggets and bullion obtained direct from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	* Foreign	Canadian	Foreign
1920-21	\$	\$	\$	\$	\$	\$
April.....	334,398					
May.....	327,209					
June.....	308,993					
July.....	123,092					
August.....	279,774					
September.....	62,166		(b)	(b)	(b)	(b)
October.....	148,129					
November.....	241,995					
December.....	227,771					
January.....	275,924					
February.....	341,043					
March.....	368,285					
Total.....	3,038,779		84	9,438,341	24,290,846	
1921-22						
April.....	178,396					
May.....	153,293					
June.....	269,946					
July.....	170,028					
August.....	90,470	2,505				
September.....	104,111		(b)	(b)	(b)	(b)
October.....	152,863					
November.....	136,126					
December.....	310,039	200				
January.....	203,389					
February.....	416,493					
March.....	346,896					
Total.....	2,532,050	2,705	500	5,027,313	18,082,533	
1922-23						
April.....	262,637					
May.....	267,201					
June.....	440,710					
July.....	344,989					
August.....	336,299					
September.....	325,266		(b)	(b)	(b)	(b)
October.....	389,320					
November.....	200,742					
December.....	419,996					
January.....	396,788					
February.....	801,280					
March.....	1,264,241					
Total.....	5,449,469		25	25,001,145	1,761,415	
1923-24						
April.....	721,781					
May.....	1,786,555					
June.....	1,943,262			15,000		
July.....	1,880,195					
August.....	299,901	850		5,005,000		
September.....	339,557			3,000,025		
October.....	142,080			4,000,000		
November.....	1,085,717			15,000	705,002	
December.....	1,881,450				7,508,071	
January.....	2,471,920					
February.....	2,102,787				1,046,703	
March.....	2,728,885				3,260,793	
Total.....	17,384,090	850		12,035,025	12,520,569	

EXPORTS OF GOLD FROM CANADA, 1917 TO 1928—*Concluded*

Years ended March 31	Gold-bearing quartz, dust, nuggets and bullion obtained direct from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	Foreign	Canadian	Foreign
1924-25	\$	\$	\$	\$	\$	\$
April.....	1,712,666				2,051,404	
May.....	2,288,095			75		
June.....	1,985,738				200,625	
July.....	2,632,948				206,328	
August.....	2,121,399					
September.....	2,157,000			95		
October.....	2,624,921			973,337	8,371	
November.....	2,562,902			616	16,978	
December.....	2,969,188				197,431	
January.....	2,406,657				136,917	
February.....	2,189,458				102,243	
March.....	3,142,361				25,923	
Total.....	28,793,333			974,123	2,946,220	
1925-26						
April.....	2,167,109				8,873	
May.....	2,471,843				16,942	
June.....	2,877,707				19,112	
July.....	2,644,260				23,080	
August.....	3,471,417					
September.....	2,993,371			3,026		
October.....	2,544,021					
November.....	3,025,027					
December.....	1,499,416					
January.....	554,411			11,000,000	1,252,539	
February.....	536,704			12,000,000	1,505,978	
March.....	1,182,808		4,000,000	1,009,733	39,053,839	
Total.....	25,968,094		4,000,000	24,012,759	41,880,363	
1926-27						
April.....	511,221					
May.....	511,345					
June.....	483,268			90		
July.....	768,748			480		
August.....	614,094					
September.....	609,492			300		
October.....	672,020					
November.....	549,049					
December.....	347,291					
January.....	702,213			36,500,000		
February.....	392,923			1,000,000	1,006,864	
March.....	692,678			3,500,000	1,004,527	
Total.....	6,854,342			41,000,870	2,011,391	
1927-28						
April.....	527,264					
May.....	525,474					
June.....	619,190		1,005	2,000		
July.....	508,831			1,217	3,007,955	
August.....	782,893			1,000,000		
September.....	891,258			100		
October.....	660,830			67		
November.....	840,573					
December.....	737,385					
January.....	785,289			27,650,625	20,392,030	
February.....	1,071,371			1,973	7,454,666	
March.....						
Total.....						

(a) No statistics available for the fiscal year, 1918-19.

(b) No statistics available by months for these years.



## EXHIBIT No. 3

(Submitted by Mr. G. W. Hyndman, Assistant Deputy Minister  
of Finance, Ottawa, Ont.)

## TRADE OF CANADA

Monthly merchandise Trade balances, April, 1916, to February, 1928

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		\$	\$
1916-17.....	April.....		5,695,228
	May.....		26,059,833
	June.....		31,664,627
	July.....		42,893,664
	August.....		25,828,435
	September.....		23,449,086
	October.....		16,025,422
	November.....		39,114,785
	December.....		64,526,859
	January.....		30,032,544
	February.....		3,388,360
	March.....		24,106,882
	Total.....		332,785,725
1917-18.....	April.....	19,939,482	
	May.....		44,570,156
	June.....		22,459,219
	July.....		89,985,876
	August.....		60,595,922
	September.....		39,537,031
	October.....		81,739,069
	November.....		121,788,174
	December.....		89,201,529
	January.....		38,904,340
	February.....		37,510,269
	March.....		16,307,010
	Total.....		622,659,102
1918-19.....	April.....	6,532,677	
	May.....	8,448,446	
	June.....		28,484,567
	July.....		21,950,876
	August.....		12,863,315
	September.....		68,860,862
	October.....		54,399,153
	November.....		49,048,324
	December.....		20,233,039
	January.....		51,521,004
	February.....		21,693,286
	March.....		34,980,277
	Total.....		349,053,580
1919-20.....	April.....		13,017,504
	May.....		25,121,704
	June.....		16,376,217
	July.....		34,477,896
	August.....		39,431,208
	September.....		22,613,103
	October.....		21,178,958
	November.....		30,277,717
	December.....		43,127,885
	January.....		17,938,222
	February.....		2,860,482
	March.....	44,290,310	
	Total.....		222,130,586

## TRADE OF CANADA—Continued

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		\$	\$
1920-21	April	42,420,236	
	May	32,902,360	
	June	26,197,400	
	July	20,357,421	
	August	10,550,619	
	September	18,717,844	
	October		25,376,963
	November		50,076,788
	December		65,067,828
	January		9,681,635
	February	5,655,317	
	March	23,132,780	
	Total	29,730,763	
1921-22	April	21,235,137	
	May	7,768,102	
	June		2,048,801
	July	5,965,747	
	August	2,784,303	
	September	215,288	
	October		21,737,905
	November		23,368,583
	December		27,135,548
	January	4,378,569	
	February	7,289,782	
	March	18,531,232	
	Total		6,122,677
1922-23	April	15,043,413	
	May		4,337,346
	June		11,438,326
	July		11,063,609
	August		7,131,669
	September		12,615,871
	October		37,029,852
	November		55,561,732
	December		41,833,133
	January	2,451,195	
	February	6,661,384	
	March	14,138,953	
	Total		142,716,593
1923-24	April	13,853,244	
	May	8,216,006	
	June		11,605,268
	July		7,403,668
	August		2,504,359
	September	2,533,629	
	October		25,659,249
	November		66,920,819
	December		59,259,656
	January		3,786,672
	February		6,197,895
	March		6,661,723
	Total		165,396,430
1924-25	April	10,654,697	
	May		33,252,737
	June		21,932,339
	July		15,589,163
	August		12,852,049
	September		18,554,338
	October		36,132,566
	November		53,646,691
	December		64,515,567
	January		17,623,773
	February		9,734,514
	March		11,250,066
	Total		284,429,106



TRADE OF CANADA—*Concluded*

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		\$	\$
1925-26.....	April.....		1,603,899
	May.....		21,580,079
	June.....		18,801,622
	July.....		21,787,516
	August.....		30,339,340
	September.....		30,910,994
	October.....		63,720,162
	November.....		66,072,843
	December.....		99,480,639
	January.....		15,979,689
	February.....		18,021,560
	March.....		13,073,062
	Total.....		401,371,405
1926-27.....	April.....	6,886,176	
	May.....		7,029,017
	June.....		27,885,668
	July.....		22,989,885
	August.....		1,993,655
	September.....		7,763,773
	October.....		43,361,987
	November.....		66,352,241
	December.....		58,032,996
	January.....		6,460,549
	February.....		5,096,386
	March.....	3,399,344	
	Total.....		236,680,637
1927-28.....	April.....		4,106,779
	May.....		16,885,548
	June.....		6,182,225
	July.....	9,827,522	
	August.....	3,393,445	
	September.....		7,531,853
	October.....		11,885,422
	November.....		61,208,770
	December.....		48,926,853
	January.....		4,921,326
	February.....		4,379,957
	Total.....		152,807,766

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